SOCIETATEA NAŢIONALĂ DE TRANSPORT GAZE NATURALE „TRANSGAZ" S.A.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

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STATEMENT OF FINANCIAL POSITION
(expressed in RON, unless otherwise stated)

	Note	31 December 2012	31 December 2011 (restated)	31 December 2010 (restated)	31 December 2009 (restated)
ASSETS					
Non-current assets					
Intangible assets	9	2,495,791,792	2,458,210,769	2,465,109,102	2,180,839,006
Property, plant and equipment	7	742,427,911	760,865,861	793,846,480	790,454,276
Available for sale financial assets	10	105,356,906	65,383,952	38,332,992	14,423,310
Trade and other receivables		-	-	-	6,716,075
		3,343,576,609	3,284,460,582	3,297,288,574	2,992,432,667
Current assets					
Inventories	11	35,827,551	43,225,864	27,628,584	34,881,298
Trade and other receivables	12	347,781,745	370,802,336	349,984,678	260,715,438
Cash and cash equivalents	13	178,637,942	274,146,527	197,510,629	196,566,265
		562,247,238	688,174,727	575,123,891	492,163,001
Total assets		3,905,823,847	3,972,635,309	3,872,412,465	3,484,595,668
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	14	117,738,440	117,738,440	117,738,440	117,738,440
Hyperinflation to share capital adjustments	14	441,418,396	441,418,396	441,418,396	441,418,396
Share premium	14	247,478,865	247,478,865	247,478,865	247,478,865
Other reserves	15	1,265,796,861	1,265,796,861	1,265,796,861	1,265,796,861
Retained earnings	15	915,143,887	936,228,241	887,758,720	670,741,373
		2,987,576,449	3,008,660,803	2,960,191,282	2,743,173,935
Non-current liabilities					
Long term borrowings	16	48,000,000	72,000,000	78,709,526	41,569,032
Provision for employee benefits	21	62,313,809	28,936,726	25,513,286	23,292,752
Deferred income	17	362,261,072	350,311,199	296,387,937	174,730,164
Deferred tax liability	18	90,372,543	140,165,931	148,326,807	155,175,807
		562,947,424	591,413,856	548,937,556	394,767,755

The accompanying notes 1 to 32 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
(expressed in RON, unless otherwise stated)

	Note	31 December 2012	31 December 2011 (restated)	31 December 2010 (restated)	31 December 2009 (restated)
Current liabilities					
Trade and other payables	19	265,393,479	291,751,720	296,649,909	261,522,331
Provision for liabilities and charges	20	8,566,604	3,803,500	5,736,026	185,439
Current income tax liabilities	18	57,339,891	26,808,208	22,126,286	25,794,253
Short term borrowings	16	24,000,000	50,197,222	38,771,406	59,151,955
		355,299,974	372,560,650	363,283,627	346,653,978
Total liabilities		918,247,398	963,974,506	912,221,183	741,421,733
Total equity and liabilities		3,905,823,847	3,972,635,309	3,872,412,465	3,484,595,668

These financial statements have been approved for issue by the Board of Directors on 8 March 2013.

Chairman of the Board,
Victor Alexandru Schmidt

General Manager
Ioan Rusu

Economic Department Manager
Ioan Ștefănescu

The accompanying notes 1 to 32 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
(expressed in RON, unless otherwise stated)

	Note	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Revenue		1,327,987,233	1,336,978,729	1,308,102,616
Other income	22	37,382,118	61,523,692	29,626,463
		1,365,369,351	1,398,502,421	1,337,729,079
Depreciation	7, 9	(164,539,650)	(159,558,719)	(142,993,223)
Wages, salaries and other employment related expenses		(284,606,235)	(271,658,077)	(250,201,248)
Gas, materials and consumables used		(145,183,283)	(157,920,634)	(152,028,251)
Royalty expense		(132,798,723)	(133,697,976)	(130,810,263)
Maintenance and transportation		(111,307,785)	(121,495,608)	(127,445,350)
Other employee benefits	26	(51,479,308)	(50,812,955)	(49,930,251)
Taxes and other State dues		(15,531,417)	(14,285,348)	(20,972,413)
Expenses with provision for employee benefits	21	(30,767,646)	(1,266,178)	37,650
Expenses with provision for liabilities and charges		(4,763,104)	1,932,526	(5,550,587)
Other operating expenses	23	(59,471,143)	(47,703,245)	(27,504,015)
Operating profit		364,921,057	442,036,207	430,331,128
Finance income	24	54,789,614	59,118,748	34,165,021
Finance costs	24	(26,795,040)	(39,423,935)	(25,880,818)
Finance income, net		27,994,574	19,694,813	8,284,203
Profit before tax		392,915,631	461,731,020	438,615,331
Income tax expense	18	(63,610,388)	(74,528,007)	(68,302,535)
Net profit for the period and total comprehensive income for the period		329,305,243	387,203,013	370,312,796
Earnings per share, basic and diluted (in RON per share)	28	27.97	32.89	31.45

The accompanying notes 1 to 32 are an integral part of these financial statements.

(expressed in RON, unless otherwise stated)

	Note	Share capital	Share capital changes	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2010 reported		117,738,440	441,418,396	247,478,865	1,265,796,861	736,592,373	2,809,024,935
Impact of deferred income tax, restated		-	-	-	-	(65,851,000)	(65,851,000)
Balance at 1 January 2010 restated	30	117,738,440	441,418,396	247,478,865	1,265,796,861	670,741,373	2,743,173,935
Profit and total comprehensive income for the year, reported		-	-	-	-	367,449,796	367,449,796
Transactions with owners							
Dividends for 2010	15	-	-	-	-	(153,295,449)	(153,295,449)
Balance at 31 December 2010 reported		117,738,440	441,418,396	247,478,865	1,265,796,861	950,746,720	3,023,179,282
Impact of deferred income tax, restated	30	-	-	-	-	2,863,000	2,863,000
Balance at 31 December 2010 restated		117,738,440	441,418,396	247,478,865	1,265,796,861	887,758,720	2,960,191,282
Profit and total comprehensive income for the year		-	-	-	-	384,338,013	384,338,013
Transactions with owners							
Dividends for 2011	15	-	-	-	-	(338,733,492)	(338,733,492)
Balance at 31 December 2011 reported		117,738,440	441,418,396	247,478,865	1,265,796,861	996,351,241	3,068,783,803
Impact of deferred income tax, restated	30	-	-	-	-	2,865,000	2,865,000
Balance at 31 December 2011 restated		117,738,440	441,418,396	247,478,865	1,265,796,861	936,228,241	3,008,660,803
Profit and total comprehensive income for the year, reported		-	-	-	-	329,305,243	329,305,243
Transactions with owners							
Dividends for 2012	15	-	-	-	-	(350,389,597)	(350,389,597)
Balance at 31 December 2012		117,738,440	441,418,396	247,478,865	1,265,796,861	915,143,887	2,987,576,449

The accompanying notes 1 to 32 are an integral part of these financial statements.

(expressed in RON, unless otherwise stated)

	Note	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Cash generated from operations	25	579,296,398	560,893,970	519,504,109
Interest paid		(3,962,230)	(7,199,132)	(2,208,100)
Interest received		15,601,120	18,200,668	14,907,081
Income taxes paid		(82,871,969)	(78,007,085)	(78,819,502)
Net cash inflow generated by operating activities		508,063,319	493,888,421	453,383,588
Cash flow from investment activities				
Payments to acquire property, plant and equipment and intangible assets		(168,504,120)	(118,804,582)	(404,144,145)
Proceeds from disposal of property plant and equipment		112,214	716,324	354,662
Acquisition of financial investments, net		(39,972,954)	(27,041,343)	(23,902,987)
Net cash used in investment activities		(208,364,860)	(145,129,601)	(427,692,470)
Cash flow from financing activities				
Dividends paid		(350,122,482)	(335,224,068)	(152,831,849)
Cash received from connection fees		5,114,231	58,486,331	81,249,215
Proceeds from long term borrowings		-	44,500,000	75,500,000
Repayments of long term borrowings		(42,413,120)	(47,670,858)	(28,664,120)
Net cash used in financing activities		(387,421,371)	(279,908,595)	(24,746,754)
Net change in cash and cash equivalents		(87,722,912)	68,850,225	944,364
Cash and cash equivalents at the beginning of the year	13	266,360,854	197,510,629	196,566,265
Cash and cash equivalents at the end of the year	13	178,637,942	266,360,854	197,510,629

The accompanying notes 1 to 32 are an integral part of these financial statements.

1. GENERAL INFORMATION

The core activity of the National Company for Transportation of Natural Gas – SNTGN Transgaz SA ("the Company") is the transport and dispatch of natural gas. The Company also maintains and operates the national gas transportation system, is involved in international transit of natural gas and carries out research and design activities in the field of equipment for the natural gas industry. The Company is majority owned by the Romanian State through the Ministry of Economy.

The Company was set up in May 2000, following several reorganisations of the gas sector in Romania; its predecessor was the former national gas monopoly SNGN Romgaz SA ("the Predecessor Company") which was unbundled based on Government Decision 334/2000.

The gas sector is regulated by the National Agency for Regulation of the Energy Sector ("Agenţia Naţională pentru Reglementare în Energie" – "ANRE"). The main responsibilities of ANRE are the following:

- issuance or withdrawal of licenses for companies operating in the natural gas sector;
- publication of framework contracts for sale, transport, acquisition and distribution of natural gas;
- setting criteria, requirements and procedures related to the selection of eligible consumers;
- setting pricing criteria and computation methods for the natural gas sector.

The Company has its registered office in I.C. Motas Square Nr 1, Medias, Romania.

These financial statements were authorised for issue by the Board of Directors on 8 March 2013.

Since January 2008, the Company is listed on Bucharest Stock Exchange, on the first tier of the market, under the symbol TGN.

The Company is in the process of selling 15% of its shares through public offer on the Bucharest Stock Exchange in the next 2 months from the date of these financial statements.

2. OPERATING ENVIRONMENT OF THE COMPANY

Romania

Romania still displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Romanian economy since mid-2008:

(i) Decreased international economic activity has resulted in lower income from exports, lower domestic demand and lower remittances from Romanians working abroad. Romania's economy contracted in 2009, 2010 and had a 2.5% increase in 2011 and 0.2% in 2012.

(ii) The rise in Romanian and emerging market risk premiums resulted in an increase in foreign financing costs. Romania was downgraded below investment grade by the main rating agencies in 2009. During 2011, the rating was revised to investment grade and in 2012 was confirmed at the same level.

(iii) The depreciation of the Romanian RON against the main currencies (the official European EURO (EUR) exchange rate of the National Bank of Romania ("NBR") changed from RON 4.2282 at 31 December 2009 and RON 4.2848 at 31 December 2010, RON 4.3197 at 31 December 2011 and at 4.4287 31 December 2012) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As a result of decreased economic activity, Government revenues decreased and the Government incurred large budgetary deficits in 2009 and 2010. In 2011 the budgetary deficit was in accordance with forecasts, being below 5%. In 2012 the budgetary deficit was 2.5%.

Certain debtors of the Company were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since the onset of the crisis. Such circumstances may affect the ability of the Company to obtain new borrowings in the future, in the same conditions.

The tax and currency legislation within Romania is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Romania.

The future economic direction of Romania is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management is unable to predict all developments in the economic environment which could have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The financial statements have been prepared under the historical cost convention except for available for sale financial assets which are presented at fair value.

The preparation of financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

New Accounting Pronouncements

New or revised standards and interpretations that are mandatory for the Company's accounting periods beginning on or after 1 January 2012, but not currently relevant to the Company

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011; effective for EU IFRS starting with 1 January 2012). The Company estimates that the amendment has no impact on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011; effective for EU IFRS starting with 1 January 2013). The Company estimates that the amendment has no impact on its financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012; effective for EU IFRS starting with 1 January 2013). The Company estimates that the amendment has no impact on its financial statements.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2014) The Company estimates that the amendment has no impact on its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2014), replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. The Company estimates that the amendment has no impact on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2014). The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2013), The Company is currently assessing the impact of the new standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Company is currently assessing the impact of the new standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2014). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Company is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012; effective for EU IFRS starting with 1 January 2013), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. The Company is currently assessing the impact of the new standard on its financial statements.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Company is currently assessing the impact of the new standard on its financial statements.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2013). The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. The Company estimates that the amendment has no impact on its financial statements.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014; effective for EU IFRS starting with 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Company estimates that the amendment has no impact on its financial statements.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013; effective for EU IFRS starting with 1 January 2013).. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Company estimates that the amendment has no impact on its financial statements.

New or Revised Standards & Interpretation not yet adopted by the European Union

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income and not through profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards - Government loans. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013).

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective for annual periods beginning 1 January 2013).

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision - maker. The chief operating decision – maker , who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

3.3 Foreign currency transactions

a) Functional currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in RON, which is the functional and presentation currency of the Company.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or evaluations at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

At 31 December 2012, the exchange rate of the NBR, was US Dollar (“USD”) 1 = RON 3.3575 (31 December 2011: USD 1 = RON 3.3393; 31 December 2010: USD 1 = RON 3.2045) and Euro (“EUR”) 1 = RON 4.4287 (31 December 2011: EUR 1 = RON 4.3197; 31 December 2010: EUR 1 = RON 4.2848).

3.4 Accounting for the effect of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies”. This standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at 31 December 2003. As the characteristics of the economic environment of Romania indicate that hyperinflation has long ceased, effective from 1 January 2004 the Company no longer applies the provisions of IAS 29.

Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 were treated as the basis for the carrying amounts in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Intangible assets

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three years). Costs associated with developing or maintaining computer software are recognized as an expense as incurred.

Service concession agreement

Starting with 2010, the Company, in accordance with the EU endorsement process started to apply IFRIC 12, **Service Concession Arrangements**, as adopted by EU. In scope of IFRIC 12 are: infrastructure that existed at the time the concession agreement was signed and also modernisations and improvements done to the pipeline system that is transferred to the regulator for no consideration at the end of the concession agreement.

As presented in Note 8, the Company has the right to charge the users of the public service, and consequently, an intangible asset was recognised for that right.

As the conclusion of the Service Concession Agreement ("S.C.A.") lacked commercial substance (e.g. there was no substantial change in the way the Company operated the assets; cash flows changed only with the inclusion of the royalty tax that the Company has to pay, but tariffs were also increased for the inclusion of the new tax) the intangible asset was measured at the carrying amount of the asset given up (classified in the Company's books as "Property, plant and equipment" at the date of the first time application of IFRIC 12). Therefore the Company has continued to recognise the assets but reclassified them in the statement of financial position to intangible assets. The Company tested the intangible assets recognised at that date for impairment and no impairment has been identified.

Cost of replacements is expensed as incurred, while upgrades to assets used under the S.C.A. are recognised at fair value.

The intangible asset is amortised to nil over the remaining period of the concession agreement.

3.6 Property, plant and equipment

Property plant and equipment comprise buildings, land and assets used for the transit activity (e.g. pipelines, compressors, gas processing equipment, measuring device etc.).

Buildings comprise mainly buildings ancillary to operating assets a research centre and office buildings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Assets in the gas transportation system	20
Other fixed assets	4 - 20

Prior to 31December 2008, borrowing costs were expensed as incurred. Starting with 1 January 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditures on that asset.

The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within the statement of comprehensive income of the period in which the sale occurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8 Public property assets

In accordance with the Public Property Law 213/1998, gas transportation pipelines represent State property. Government Decision 491/1998, as confirmed by Government Decision 334/2000, specifies that fixed assets with a historical statutory gross book value of RON 474,952,575 (at 31 December 2011: RON 474,952,575, 31 December 2010: RON 482,787,644), representing gas pipelines are to be administered by the Company. Therefore, the Company has the exclusive right to use these assets over the concession period and will return them to the State at the end of the period (see Note 8). The Company receives the majority of the benefits associated with the assets and is exposed to the majority of risks, including the requirement to maintain the network assets over a period which is at least equal to their remaining useful life, and the Company's financial performance is directly linked to the condition of the network system. Consequently, before 1 January 2010, the Company has recognized these assets as property, plant and equipment, together with a corresponding reserve in equity (Note 5.2). Accounting policies applied for these assets were the same as for the Company's other property, plant and equipment (Notes 3.7 and 3.6).

As detailed in Note 3.5 the Company adopted IFRIC 12 starting with 1 January 2010 and reclassified these assets, together with the improvements made to them by the Company as intangible assets (except transit pipelines).

As per the Public Concession Law 238/2004, a royalty must be paid in respect of public property assets which are administered by companies other than state bodies. The royalty rate for the gas transportation pipelines is set by the government. Starting from October 2007, the royalty was set at 10% of the revenues. The duration of the concession agreement is 30 years to 2032.

3.9 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise ''trade and other receivables' and "cash and cash equivalents" in the statement of financial position (Notes 3.11 and 3.13).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as 'gains and losses from investment securities'.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payments is established.

(c) Impairment of financial assets

The Company assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of that asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flow of the financial asset or group of financial assets that can be reliably estimated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy, or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties, or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

a) Assets carried at amortised cost

Impairment testing of trade receivables is described above.

For loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient the company may measure the impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Assets classified as available for sale

The Company assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed and any subsequent gains are recognised through other comprehensive income.

3.10 Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost is determined using the first in first out cost method. Where necessary, provision is made for slow moving and obsolete inventories in order to arrive at the net realizable value. Obsolete or defective inventories identified individually are provided for in full or written-off. For slow moving inventories, an estimation of the age of inventories based on their turnover is made for each main category.

3.11 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.12 Value added tax

Value added tax (VAT) is payable to the Tax Authorities based on the monthly VAT return by the 25th of the following month irrespective of collection of receivables from customers. The Fiscal Authorities permit the settlement of VAT on a net basis. When input VAT is higher than output VAT, the difference is refundable at the Company's request. The VAT refund may be made after a tax inspection is performed or without a tax inspection, if certain conditions are met. VAT related to sales and purchases which has not been settled at the end of the reporting period is recognised in the statement of financial position on a net basis and disclosed as a current asset or liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT needs to be paid to the State and can only be recovered after the debtor is declared bankrupt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Cash and cash equivalents

In the statement of cash flow, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

3.14 Shareholders' equity

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognized as a liability and deducted from equity at the end of the reporting period only if they are declared before or at the end of the reporting period. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorized for issue.

3.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Current and deferred income tax

The income tax expense comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.16 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.17 Deferred income

Deferred income is recorded for connection fees charged to customers for connecting them to the gas transportation network and for assets received free of charge. The deferred income is recognised in profit or loss over the useful life of the related assets which are installed on connection (connection pipes, gas flow regulator, meters).

3.18 Employee benefits

The Company, in the normal course of business, makes payments to the Romanian State on behalf of its employees for social security, health and pension benefits. All employees of the Company are members of the Romanian State pension plan, which is a defined contribution plan. These payments are recognised within profit or loss together with the salary expenses.

Benefits on retirement

Under the collective labour contract, the Company should pay to its employees at the time of their retirement an amount equal to a multiplier of their gross salary depending on the employment period in the gas industry, working conditions, etc. The Company has recorded a provision for such payments (see Note 21).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Social securities

The Company incurs employee costs related to the provision of benefits such as social securities. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to wages and salaries costs.

Free gas

The Company is also committed through the collective labour agreement to provide employees material aide equivalent to certain quantities of gas (see Note 26); these amounts are presented in "Other employee benefits" in the period in which they are incurred. The value of this gas is calculated at the regulated selling price applied to the agreed quantity as per the collective labour contract.

Profit-sharing and bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Company recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

3.19 Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services and / or goods in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) *Revenue from services*

Revenue from gas transportation and transit is recognized when the gas has been delivered and measured in accordance with contract. Quantities of gas transported are measured and billed to clients on a monthly basis.

b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

c) *Dividend income*

Dividends are recognised when the right to receive payment is established.

d) *Mutual cancellation and barter transactions*

A relatively small portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of cancellation of balances either bilaterally or through a chain involving several companies (Note 29).

Sales and purchases that are expected to be settled by barter or other non-cash settlements are recognised based on the management's estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash flows.

e) *Revenue from penalties*

Revenues from penalties for late payment are recognised when future economic benefits are expected for the Company.

(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from recognised assets (Note 12) and liabilities, mainly long-term borrowings (Note 16).

The Company does not have formal arrangements to mitigate currency risks of its operations; and the Company does not apply hedge accounting. However, management believes that the Company is largely secured from foreign exchange risks as foreign currency denominated sales (principally transit revenues) are used to cover repayment of foreign currency denominated borrowings.

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

	2012	2011	2010
Impact on profit and loss and on equity of:			
US Dollar strengthening by 10%	2,663,068	9,813,507	7,983,203
US Dollar weakening by 10%	(2,663,068)	(9,813,507)	(7,983,203)
Euro strengthening by 10%	5,029,460	10,568,359	4,221,697
Euro weakening by 10%	(5,029,460)	(10,568,359)	(4,221,697)

(ii) Price risk

The Company is exposed to commodity price risk related to gas acquired for its own consumption. If the price of gas had been 5% higher/lower, net profit for the year would have been lower/higher by RON 55,083,885 (2011: RON 5,633,091; 2010: RON 5,641,852).

(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Cash flow and fair value interest rate risk

The Company is exposed to interest rate risk through its interest-bearing short and long-term borrowings, the majority of which are at variable rates. The Company is also exposed to interest rate risk on its bank deposits. The Company has not entered into any arrangements to mitigate this risk. For the average exposure during 2012, if interest rates had been 50 basis points lower/higher with all other variables held constant, profit for the year and equity would have been RON 787,254 (2011: profit RON 617,446; 2010: profit RON 1,083,388) lower / higher, as a result of reductions in the interest received on bank deposits, partly offset by lower interest expense on variable interest liabilities.

(b) Credit risk

Credit risk arises mainly from cash and cash equivalents and from trade receivables. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of bad debt provision, represents the maximum amount exposed to credit risk. The Company's credit risk is concentrated in its top 5 clients, which together amount to 73% of trade receivable balance at 31 December 2012 (2011: 79%; 2010: 83%). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

	2012	2011
No rating	53,863,544	-
BB-	34,639,436	97,688,307
BBB-	707,233	6,157,377
BBB+	60,361,920	93,542,707
BB+	-	76,565,855
BA1	187,202	-
A	28,727,413	-
A+	49,409	-
	178,536,157	273,954,246

(c) Liquidity risk

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

(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company performs cash flow forecasting. Company's finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 16) at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Company finance department invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

The table below shows liabilities at 31 December 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2012 is as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Borrowings	79,260,985	27,911,962	51,349,023	-
Trade and other payables*	166,506,211	166,506,211	-	-
	245,767,196	194,418,173	51,349,023	-

The maturity analysis of financial liabilities at 31 December 2011 was as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans and borrowings	136,655,174	56,754,559	79,900,615	-
Trade and other payables*	197,687,749	197,687,749	-	-
	334,342,923	254,442,308	79,900,615	-

The maturity analysis of financial liabilities at 31 December 2010 was as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans and borrowings	133,695,971	45,669,361	88,026,610	-
Trade and other payables*	217,186,905	217,186,905	-	-
	350,882,876	262,856,266	88,026,610	-

* Trade and other payables include trade payables, suppliers of fixed assets, dividends payable, payable to Ministry of Economy and Commerce and other liabilities (Note 19).

(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There are no externally imposed capital requirements.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

During 2012, the Company's strategy, which was unchanged from 2011 and 2010 was to keep the gearing ratio as low as possible in order to maintain a significant capacity to borrow funds for future investments if and when necessary. The net gearing ratio was nil at 31 December 2012, 2011 and 2010:

	2012	2011	2010
Total borrowings (Notes 16)	72,000,000	114,411,549	117,480,932
Less: cash and cash equivalents (Note 13)	(178,637,942)	(266,360,854)	(197,510,629)
Net cash position	(106,637,942)	(151,949,305)	(80,029,697)

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

5.1 Assumptions to determine amount of provision for retirement benefits

This provision has been computed based on the estimations of the average salary, average staff turnover and average number of salaries to be paid at the time of the retirement and the time frame when the benefits are to be paid. The provision has been discounted to its present value by applying a discount factor based on the risk free interest rate (i.e. interest rate on government bonds).

5.2 Accounting treatment for concession agreement

As further described in Note 8, in May 2002, the Company has concluded a Service Concession Agreement with ANRM giving the Company the right to operate the pipelines of the national gas transportation system for a period of 30 years. Before the conclusion of this agreement, the pipelines were in administration of the Company as per Public Domain Law no. 213/1998, Governing Decision („GD") no. 491/1998 and GD no. 334 from 2000 by which the Company was set up. According to the clauses of this agreement, the Company receives the majority of the benefits associated with the assets and is exposed to the majority of risks. Consequently, the Company has recognized these assets in its statement of financial position, together with a corresponding reserve in equity. As for the existing infrastructure at the date of signing the Service Concession Agreement, as the Company had no unfulfilled obligation to assume upon completion of the Service Concession Agreement (only obligation related to maintenance and improvements, investments in new pipelines) Company's management considered, that in substance it should be an equity component, which is defined as the residual interest in the assets of the Company after deducting all its liabilities. Furthermore, since the Company and its predecessor, SNGN Romgaz SA were controlled by the Romanian State, the issuance of the Patrimony Law (e.g. the loss of legal ownership) and the reorganisation of SNGN Romgaz SA into five companies can be considered as a transaction with the owner, in its capacity as owner, which would also support recognition of the transaction within equity. Starting with 2010 the Company has applied IFRIC 12 (Note 3.5).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

5.3 Accounting treatment for royalties paid for the use of the national gas transportation system

As described in Note 8, the Company pays royalties, computed as a percentage of gross revenues from operating the national gas transportation system's pipelines. These costs have been recognised as an expense rather than a deduction from revenues because they are not of the nature of a tax collected from customers and passed on to the State, due to the nature of the business and regulatory environment:

- the Company's revenues are based on tariffs approved by a different regulator than the regulator setting the royalty level;
- the royalty expense is only one of the elements taken into account in computing the transportation tariff;
- recovery of any increases in royalty in full through future tariff increases is not guaranteed; and
- tariffs may increase with up to a year's delay after changes in royalty (if at all).

(expressed in RON, unless otherwise stated)

6. SEGMENT INFORMATION

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2012 is as follows:

	Domestic gas transportation	International gas transit	Unallocated	Total
Sales	1,052,112,211	275,875,022	-	1,327,987,233
Other income	9,549,938	-	27,832,180	37,382,118
Total revenue	1,061,662,149	275,875,022	27,832,180	1,365,369,351
Depreciation	(125,478,351)	(35,238,575)	(3,822,724)	(164,539,650)
Operating expenses other than depreciation	(773,062,699)	(52,979,485)	(9,866,460)	(835,906,644)
Operating result	-	-	-	364,921,057
Net financial gain	-	-	-	27,994,574
Profit before tax	-	-	-	392,915,631
Income tax	-	-	-	(63,610,388)
Net profit	-	-	-	329,305,243
Segment assets	3,045,911,956	515,087,312	344,824,579	3,905,823,847
Segment liabilities	755,979,967	9,580,804	152,686,627	918,247,398
Transfers from assets under construction	281,675,660	102,176	45,051	281,822,887
Capital expenditure - increases in assets under construction	160,179,355	1,791,015	-	161,970,370
Non-cash expenses other than depreciation	45,260,792	837,532	3,517,080	49,615,404

The assets presented for the two main operating segments comprise mainly tangible and intangible assets, inventory and receivable and exclude mainly the cash and bank accounts.

Unallocated assets include:	
Fixed assets	51,934,120
Financial assets	105,356,906
Cash	178,633,441
Other assets	8,900,112
	344,824,579
Unallocated liabilities include:	
Deferred tax	90,372,543
Tax payable	57,339,891
Other liabilities	4,974,193
	152,686,627

The liabilities presented for the two main operating segments consist of the operating liabilities and loans contracted by the Company for the acquisition of the assets for the respective segments.

(expressed in RON, unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

The non-cash expenses other than depreciation consist of the receivables impairment charge and the inventory impairment, other risk provisions

The transit activity is provided to only two foreign customers, while the transportation activity is provided for a number of domestic customers. The revenues from transportation services are obtained as follows: 67% from distribution companies and 33% from eligible (large) customers.

	Domestic customers	Foreign customers	Total
Turnover	1,052,112,211	275,875,022	1,327,987,233
Other income	36,860,228	521,890	37,382,118
	1,088,972,439	276,396,912	1,365,369,351

All the Company's assets are located in Romania. All the Company's activities are carried out in Romania. The Company has receivables from foreign customers in amount of RON 22,546,287 (2011: RON 22,162,934; 2010: RON 21,294,658).

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2011 is as follows:

	Domestic gas transportation	International gas transit	Unallocated	Total
Sales	1,092,023,206	244,955,523	-	1,336,978,729
Other income	8,569,728	-	52,953,964	61,523,692
Total revenue	1,100,592,934	244,955,523	52,953,964	1,398,502,421
Depreciation, restated	(120,279,028)	(35,454,747)	(3,824,944)	(159,558,719)
Operating expenses other than depreciation	(726,499,327)	(54,430,861)	(15,977,307)	(796,907,495)
Operating result	-	-	-	442,036,207
Net financial gain	-	-	-	19,694,813
Profit before tax	-	-	-	461,731,020
Income tax, restated	-	-	-	(74,528,007)
Net profit, restated	-	-	-	387,203,013
Segment assets, restated	3,019,794,663	547,485,175	405,355,471	3,972,635,309
Segment liabilities	773,409,581	10,285,397	180,279,528	963,974,506
Transfers from assets under construction	169,546,893	1,024,713	9,051,645	179,623,251
Capital expenditure – increases in assets under construction	104,399,693	101,856	135,327	104,636,876
Non-cash expenses other than depreciation	1,796,355	544,578	7,043,715	9,384,628

(expressed in RON, unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

The assets presented for the two main operating segments comprise mainly tangible and intangible assets, inventory and receivable and exclude mainly the cash and bank accounts.

Unallocated assets include:	
Fixed assets	55,784,230
Financial assets	65,383,952
Cash	274,073,519
Other assets	10,113,770
	405,355,471

Unallocated liabilities include:	
Deferred tax restated (Note 30)	140,165,931
Tax payable	26,808,208
Other liabilities	13,305,389
	180,279,528

The liabilities presented for the two main operating segments consist of the operating liabilities and loans contracted by the Company for the acquisition of the assets for the respective segments.

The non-cash expenses other than depreciation consist of the receivables impairment charge and the inventory impairment, other risk provisions

The transit activity is provided to only two foreign customers, while the transportation activity is provided for a number of domestic customers. The revenues from transportation services are obtained as follows: 76% from distribution companies and 22% from eligible (large) customers.

	Domestic customers	Foreign customers	Total
Turnover	1,092,023,206	244,955,523	1,336,978,729
Other income	61,523,692	-	61,523,692
	1,153,546,898	244,955,523	1,398,502,421

All the Company’s assets are located in Romania. All the Company’s activities are carried out in Romania.

(expressed in RON, unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2010 is as follows:

	Domestic gas transportation	International gas transit	Unallocated	Total
Sales	1,054,013,720	254,088,896	-	1,308,102,616
Other income	5,660,989	-	23,965,474	29,626,463
Total revenue	1,059,674,709	254,088,896	23,965,474	1,337,729,079
Depreciation, restated	(104,096,131)	(36,146,733)	(2,750,359)	(142,993,223)
Operating expenses other than depreciation	(704,122,288)	(46,957,320)	(13,325,120)	(764,404,728)
Operating result	-	-	-	430,331,128
Net financial gain	-	-	-	8,284,203
Profit before tax	-	-	-	438,615,331
Income tax, restated (Note 30)	-	-	-	(68,302,535)
Net profit, restated	-	-	-	370,312,796
Segment assets, restated	2,982,781,189	582,133,378	307,497,898	3,872,412,465
Segment liabilities	725,166,220	11,469,160	175,585,803	912,221,183
Transfers from assets under construction	440,918,562	1,792,648	19,913,356	462,624,566
Capital expenditure – increases in assets under construction	380,901,956	2,229,125	29,000,919	412,131,341
Non-cash expenses other than depreciation	14,304,196	763,295	878,411	15,945,903

The assets presented for the two main operating segments comprise mainly tangible and intangible assets, inventory and receivable and exclude mainly the cash and bank accounts.

The liabilities presented for the two main operating segments consist of the operating liabilities and loans contracted by the Company for the acquisition of the assets for the respective segments.

The non-cash expenses other than depreciation consist of the receivables impairment charge and the inventory impairment and other risk provisions.

The transit activity is provided to only two foreign customers, while the transportation activity is provided for a number of domestic customers. The revenues from transportation services are obtained as follows: 76% from distribution companies and 22% from eligible (large) customers.

	Domestic customers	Foreign customers	Total
Turnover	1,054,013,720	254,088,896	1,308,102,616
Other income	29,626,463	-	29,626,463
	1,083,640,183	254,088,896	1,337,729,079

All the Company's assets are located in Romania. All the Company's activities are carried out in Romania.

(expressed in RON, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transportation system assets (restated, Note 30)	Other fixed assets	Assets in course of construction	Total
Year ended 31 December 2010					
Cost at 1 January 2010	222,556,693	934,008,543	212,521,009	6,566,121	1,375,652,366
Accumulated depreciation at 1 January 2010	(79,253,290)	(361,134,926)	(144,809,874)	-	(585,198,090)
Opening net book value	143,303,403	572,873,617	67,711,135	6,566,121	790,454,276
Additions	1,754,125	18,452,505	48,140	40,155,438	60,410,208
Transfers	19,211,699	1,469,476	8,708,543	(29,389,718)	-
Disposals (Net book value)	(793,025)	-	(343,363)	-	(1,136,388)
Depreciation charge	(6,451,992)	(32,963,741)	(16,465,883)	-	(55,881,616)
Closing net book value	157,024,210	559,831,857	59,658,572	17,331,841	793,846,480
Cost	242,230,820	953,930,524	214,281,051	17,331,841	1,427,774,236
Accumulated depreciation	(85,206,610)	(394,098,667)	(154,622,479)	-	(633,927,756)
Net book value	157,024,210	559,831,857	59,658,572	17,331,841	793,846,480
Year ended 31 December 2011					
Opening net book value	157,024,210	559,831,857	59,658,572	17,331,841	793,846,480
Additions	-	14,748,151	617,090	9,721,451	25,086,692
Transfers	1,462,580	823,570	22,461,797	(24,747,947)	-
Disposals (Net book value)	(204,212)	-	(118,138)	-	(322,350)
Depreciation charge	(7,140,516)	(33,882,088)	(16,722,357)	-	(57,744,961)
Closing net book value	151,142,062	541,521,490	65,896,964	2,305,345	760,865,861
Cost	242,552,353	969,502,245	232,608,761	2,305,345	1,446,968,704
Accumulated depreciation	(91,410,291)	(427,980,755)	(166,711,797)	-	(686,102,843)
Net book value	151,142,062	541,521,490	65,896,964	2,305,345	760,865,861
Year ended 31 December 2012					
Opening net book value	151,142,062	541,521,490	65,896,964	2,305,345	760,865,861
Additions	-	21,385,367	559,317	16,726,327	38,671,011
Transfers	354,121	69,704	7,309,124	(7,732,949)	-
Disposals (Net book value)	(86,389)	(66,497)	(79,445)	-	(232,331)
Depreciation charge	(6,711,161)	(34,549,190)	(15,616,279)	-	(56,876,630)
Closing net book value	144,698,633	528,360,874	58,069,681	11,298,723	742,427,911
Cost	242,556,113	990,885,435	236,204,988	11,298,723	1,480,945,259
Accumulated depreciation	(97,857,480)	(462,524,561)	(178,135,307)	-	(738,517,348)
Closing net book value	144,698,633	528,360,874	58,069,681	11,298,723	742,427,911

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The gross book value of fully depreciated tangible assets still in use is RON 141,275,805 (2011: RON 119,845,303; 2010: RON 109,328,618).

For the assets developed by the Company which are not crucial for providing the service under the concession agreement, the State has the option to purchase these assets at the end of the concession agreement. The Company does not have an obligation to maintain these assets until the end of the concession agreement and is allowed to sell them. These assets are not within the scope of IFRIC 12. All other assets which are part of the national gas transportation system, including improvements made subsequent to the signature of the concession agreement and which are to be handed over to ANRM at the end of the concession agreement are within the scope of IFRIC 12.

Assets used to provide transit services are not within the scope of IFRIC 12.

8. SERVICE CONCESSION AGREEMENT

In May 2002, the Company concluded a S.C.A. with ANRM giving the Company the right to operate the major pipelines (trunk pipelines) of the national gas transportation system for a period of 30 years. Prior to the conclusion of this agreement, the pipelines were in administration of the Company as per Public Domain Law no. 213/1998, Governing Decision („GD") no. 491/1998 and GD no. 334 from 2000 by which the Company was set up. All the modernisation or developments added by the Company to the system are considered parts of the system and become property of the ANRM at the end of their useful life. The Company cannot sell any asset which is part of the pipeline system; disposals can only be made based on approval by the Romanian State.

At the end of the contract, the public property assets existing at the time when the agreement was signed and all the investments made to the system will be returned to the State free of charge. The Company owns and will develop other assets that are not a direct part of the national gas pipeline transportation system, but represent complementary assets for the gas transportation operations. The ANRM has the option to buy these assets at the end of the S.C.A. at fair value.

The main terms of the S.C.A. are as follows:

- the Company has the right to directly operate the assets being the object of the S.C.A. and to charge and collect the transit and transportation tariffs from its customers in exchange for the services provided; the Company is the only entity licensed to operate the pipelines of the national gas transportation system, with no sub-concessions being allowed;
- any change in tariffs should be proposed by the Company to the ANRM and further approved by ANRE;
- the Company is exempted from the payment of import duties for assets acquired in order operate, improve or develop the system;
- on an annual basis, the Company should publish the available capacity of the system for the next year, by October 30;

8. SERVICE CONCESSION AGREEMENT (CONTINUED)

- on an annual basis, customers' orders must be replied to by November 30, and ANRM should be informed of all the refusals decided by the Company's management;
- the Company has to maintain a specific service level (guaranteed through a minimum compulsory investment program);
- royalties are paid as a percentage (up to 30 September 2007: 5%, starting October 2007: 10%) of gross revenue from operating the pipeline network (transportation and transit);
- all operating expenses for running the system are covered by the Company;
- the Company can cancel the contract by notifying the ANRM 12 month in advance;
- the ANRM can cancel the contract with 6 month advance notification in case of default; it has also the option to cancel the contract with a 30 days notification period, for "national interest" reasons; in such case, the Company will be paid compensation amounting to the average net profit for the past 5 years multiplied by remaining life of the contract.

The S.C.A. does not include an automatic extension clause.

No changes in the terms of the S.C.A. have occurred since June 2003, except approval of minimum investment plans.

(expressed in RON, unless otherwise stated)

9. INTANGIBLE ASSETS

	S.C.A. asset (restated, Note 30)	Computer software	Intangible assets in progress	Total
At 31 December 2010				
Cost at 1 January 2010	4,516,339,854	52,182,278	436,010,815	5,004,532,947
Accumulated amortisation at 1 January 2010	(2,778,615,359)	(45,078,582)	-	(2,823,693,941)
Opening net book value	1,737,724,495	7,103,696	436,010,815	2,180,839,006
Additions	-	8,064,116	371,975,903	380,040,019
Transfers	414,576,152	-	(414,576,152)	-
Disposals	-	(594,200)	(8,064,116)	(8,658,316)
Amortisation	(81,685,384)	(5,426,223)	-	(87,111,607)
Closing net book value	2,070,615,263	9,147,389	385,346,450	2,465,109,102
Cost	4,940,390,244	59,451,026	385,346,450	5,385,187,720
Accumulated amortisation	(2,869,774,981)	(50,303,637)	-	(2,920,078,618)
Net book value	2,070,615,263	9,147,389	385,346,450	2,465,109,102
At 31 December 2011				
Opening net book value	2,070,615,263	9,147,389	385,346,450	2,465,109,102
Additions	-	4,591,001	94,915,425	99,506,426
Transfers	134,919,062	-	(134,919,062)	-
Disposals	-	-	(4,591,001)	(4,591,001)
Amortisation	(95,973,508)	(5,840,250)	-	(101,813,758)
Closing net book value	2,109,560,817	7,898,140	340,751,812	2,458,210,769
Cost	5,075,309,306	64,042,027	340,751,812	5,480,103,145
Accumulated amortisation	(2,965,748,489)	(56,143,887)	-	(3,021,892,376)
Net book value	2,109,560,817	7,898,140	340,751,812	2,458,210,769
At 31 December 2012				
Opening net book value	2,109,560,817	7,898,140	340,751,812	2,458,210,769
Additions	-	4,134,076	145,244,043	149,378,119
Transfers	247,657,058	-	(247,657,058)	-
Disposals	-	-	(4,134,076)	(4,134,076)
Amortisation	(102,573,439)	(5,089,581)	-	(107,663,020)
Closing net book value	2,254,644,436	6,942,635	234,204,721	2,495,791,792
Cost	5,322,966,364	68,176,103	234,204,721	5,625,347,188
Accumulated amortisation	(3,068,321,928)	(61,233,468)	-	(3,129,555,396)
Net book value	2,254,644,436	6,942,635	234,204,721	2,495,791,792

(expressed in RON, unless otherwise stated)

10. AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets consist of unlisted equities in the following companies:

Company	Activity	% Ownership 2012	% Ownership 2011	% Ownership 2010	31 Dec 2012	31 Dec 2011	31 Dec 2010
Resial SA	Manufacturing	68.16	68.16	68.16	18,116,501	18,116,501	18,116,501
Mebis SA	Manufacturing and dispatch of gas	17.47	17.47	17.47	6,461,736	6,461,736	6,461,736
Nabucco Gas Pipeline International Gmbh	Gas transportation	17.38	16.67	16.67	105,356,906	65,383,952	38,332,992
Nabucco Gaz Pipeline LTD Sirketi		0.5	0.5	0.5	-	-	-
Less provision for impairment of investments in Resial and Mebis					(24,578,237)	(24,578,237)	(24,578,237)
					105,356,906	65,383,952	38,332,992

Investment in Resial SA

The shares in Resial SA were received in December 2003 through enforced collection of receivables from a customer, Resial SA has entered liquidation procedures in 2006; the process is carried out by an insolvency practitioner appointed by the court and is outside the Company's control, therefore the investment is not consolidated and is carried at cost less impairment provision at 100% of cost . A loan made to Resial SA has also been fully impaired, Management does not expect that the Company will recover any amounts from this investment and the Company does not guarantee any residual liabilities of Resial SA.

Investment in Mebis SA

The shares in Mebis SA were received in February 2004 through enforced collection of receivables from a customer. Mebis SA is in liquidation, therefore the whole investment in Mebis SA was provided for. The Company has no obligations in respect of Mebis SA.

10. AVAILABLE FOR SALE FINANCIAL ASSETS (CONTINUED)

Investment in Nabucco Gas Pipeline International Gmbh

Nabucco Gas Pipeline International Gmbh ("NIC") is a limited liability company, with headquarters in Vienna, Austria, established in order to undertake the construction of a gas pipeline from Turkey through Bulgaria, Romania and Hungary to Austria.

The Company participated with four other shareholders in the share capital of this company, each holding a participation of 20% of the share capital. In February 2008, the share capital of NIC was increased through the contribution of a new shareholder, RWE Gas Midstream Germany.

In 2010 the contribution of the Company to NIC share capital was increased with 5.6 million EUR, in 2011 the contribution was in amount of 6.4 million EUR and in 2012 the contribution was in amount of 9 million EUR, reaching lei 105,356,906.

The Company holding in the Nabucco project increased from 16.67% to 17.38% in 2012, following the refusal of its partner FGSZ Hungary to provide the future financing of the project.

As at 31 December 2012, the shareholders in NIC were BOTAS - Turkey 17.38%, Bulgargaz - Bulgaria 17.38%, SNTGN Transgaz SA - Romania 17.38%, MOL - Hungary 13.10%, OMV Gas & Power GmbH – Austria 17.38 and RWE Gas Midstream Germania 17.38%. RWE Gas Midstream Germany intends to sell its interest in NIC to OMV Gas & Power GmbH – Austria.

The selection process for the gas transportation from Shah Deniz II gas field is still ongoing. The final choice between Nabucco Vest or Trans Adriatic pipe line (TAP) is expected to be taken by the consortium Shah Deniz by the end of the second trimester of the year 2013.

At 31 December 2012, Company's investment in NIC is evaluated at cost of RON 105,356,906 (31 December 2011: RON 65,383,952, 1 January 2011: RON 38,332,992), since the fair value could not be estimated. The NIC shares are not quoted. Shares in such companies are rarely traded and information on these transactions on the market is not available. The market is limited. NIC has recent published financial statements prepared in accordance with regulatory framework of the country of incorporation which differs in many aspects from EU IFRS and cannot be used as an indicator for fair value.

Investment in Nabucco Gas Pipeline Limited Şirketi

On 18 June 2010 was set up NABUCCO GAS PIPELINE LIMITED ŞIRKETI Turkey located in Ankara (subsidiary of Nabucco Gas Pipeline International GmbH), The company has 5 shareholders: Nabucco Gas Pipeline International GmbH, BOTAS-Turkey, Bulgarian Energy Holding EAD-Bulgaria, SNTGN Transgaz SA-România, MOL-Hungary and OMV Gas &Power GmbH – Austria .

The share capital of NABUCCO GAS PIPELINE LIMITED ŞIRKETI is of TRL 5,000, consisting of 200 shares, each with a nominal value of TRL 25. The share capital was subscribed as follows: Nabucco Gas Pipeline International GmbH 98% and each of the other parties contributed 0.5% of share capital.

(expressed in RON, unless otherwise stated)

11. INVENTORIES

	31 December 2012	31 December 2011	31 December 2010
Gas stock	10,388,000	10,388,000	-
Spare parts, materials and work in progress	32,098,301	40,052,647	35,559,358
Provision for slow moving inventories	(6,658,750)	(7,214,783)	(7,930,774)
	35,827,551	43,225,864	27,628,584

As per the Order of ANRE no 2 issued on 20 January 2011, 20 million mc (212 thousand MWh) of gas stock was stored in underground storages.

12. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011	31 December 2010
Trade receivables	378,482,000	387,394,642	369,716,105
Advances to suppliers	923,074	977,790	1,408,900
Non chargeable VAT	2,134,385	4,151,747	3,386,101
Loan to Resial SA (Note 10)	1,770,346	1,781,843	1,781,843
Other receivables	16,711,478	19,392,769	22,914,703
Provision for impairment of receivables	(41,424,036)	(34,549,915)	(46,217,236)
Provision for impairment of other receivables	(10,815,502)	(8,346,540)	(3,005,738)
	347,781,745	370,802,336	349,984,678

As at 31 December 2012, RON 27,280,240 (31 December 2011: RON 25,231,927; 31 December 2010: RON 25,411,435) of net trade and other receivables are denominated in foreign currency, of which 69% in USD (2011: 79 %; 2010: 70%) and 31% in EUR (2011: 26%; 2010: 30%).

Included in trade receivables are balances from related parties of RON 63,803,692 (31 December 2011: RON 79,356,883; 31 December 2010: RON 56,440,506) as presented in Note 27.

Trade receivables have been pledged in favour of banks as collateral for bank loans as described in Note 16. The total amount of pledged receivables as at 31 December 2012 is RON 63,939,722 (31 December 2011: RON 225,718,599; 31 December 2010: RON 209,705,034).

(expressed in RON, unless otherwise stated)

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

Analysis by credit quality of trade and other receivables is as follows:

	2012 Trade receivables	2012 Other financial receivables	2011 Trade receivables	2011 Other financial receivables	2010 Trade receivables	2010 Other financial receivables
Current and not impaired (1)	201,971,648	9,949,562	181,267,091	14,695,428	193,599,922	23,771,960
Past due but not impaired						
- less than 30 days overdue	102,253,997	186,973	124,790,103	60,193	99,844,267	2,513,880
- 30 to 90 days overdue	26,969,834	74,887	46,192,702	2,105,142	24,337,159	74,294
- over 90 days overdue	5,862,485	512,359	594,831	1,096,846	5,717,521	125,675
Total past due but not impaired (2)	135,086,316	774,219	171,577,636	3,262,181	129,898,947	2,713,849
Individually determined to be impaired (gross)						
- 30 to 90 days overdue	1,040,665	17,051	1,661,016	229,380	2,180,845	5,841
- 90 to 360 days overdue	6,591,220	3,826,831	291,977	5,928,651	615,128	443,335
- over 360 days overdue	33,792,151	6,971,620	32,596,922	2,188,509	43,421,263	2,556,562
Total individually Impaired (3)	41,424,036	10,815,502	34,549,915	8,346,540	46,217,236	3,005,738
Less impairment provision (4)	41,424,036	10,815,502	34,549,915	8,346,540	46,217,236	3,005,738
Total trade and other receivables (1+2+3-4)	337,057,964	10,723,781	352,844,727	17,957,609	323,498,869	26,485,809

The credit quality of financial assets neither past due not impaired can be assessed by reference to historical information about counterparty default rates.

	31 December 2012	31 December 2011	31 December 2010
Group 1	149,598,937	140,597,735	143,323,272
Group 2	52,372,711	40,669,356	50,276,650
Trade receivables	201,971,648	181,267,091	193,599,922

(expressed in RON, unless otherwise stated)

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

Group 1 – existing customers/ related parties with no defaults in the past.

Group 2 - existing customers/ related parties with some delays in payment in the past. Most of the arrears were fully recovered.

The movements in allowance account are presented below:

	31 December 2012	31 December 2011	31 December 2010
Provision as at 1 January	42,896,455	49,222,974	78,376,549
(Income) / expense with provision for doubtful debts (Note 23)	9,343,083	(6,326,519)	(29,153,575)
Provision as at 31 December	52,239,538	42,896,455	49,222,974

13. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011	31 December 2010
Cash at bank in RON	124,493,626	112,669,050	113,758,919
Cash at bank in foreign currency	54,031,727	161,285,196	83,625,433
Other cash equivalents	112,589	192,281	126,277
	178,637,942	274,146,527	197,510,629

The cash at bank in foreign exchange is denominated mostly in EUR.

For the purpose of the cash flow statement, cash and cash equivalents include:

	31 December 2012	31 December 2011	31 December 2010
Cash and cash equivalents	178,637,942	274,146,527	197,510,629
Overdraft (Note 16)	-	(7,785,673)	-
	178,637,942	266,360,854	197,510,629

The weighted average effective interest rate on short term bank deposits was 4.56% at 31 December 2012 (31 December 2011: 5.07 %; 31 December 2010: 5.88%) and these deposits had an average maturity of 30 days. Included in cash at bank are also bank deposits with original maturity of less than 3 months.

(expressed in RON, unless otherwise stated)

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital	Share premium	Total
Statutory				
At 31 December 2010	11,773,844	117,738,440	247,478,865	365,217,305
At 31 December 2011	11,773,844	117,738,440	247,478,865	365,217,305
At 31 December 2012	11,773,844	117,738,440	247,478,865	365,217,305
IFRS				
Hyperinflation adjustment to share capital cumulative to 31 December 2003	-	441,418,396	-	441,418,396
At 31 December 2012, 31 December 2011, 31 December 2010	11,773,844	559,156,836	247,478,865	806,635,701

The authorised number of ordinary shares is 11,773,844 (31 December 2011: 11,773,844; 31 December 2010: 11,773,844) with a nominal value of RON 10 each. Each share carries one vote. The shareholders structure at 31 December 2012 is presented below:

	Number of ordinary shares	Statutory amount (RON)	Percentage (%)
Romanian State, represented by Ministry of Economy and Commerce („MEC")	8,654,917	86,549,170	73.5097
Fondul „Proprietatea" SA	1,764,620	17,646,200	14.9876
Other shareholders	1,354,307	13,543,070	11.5027
	11,773,844	117,738,440	100.0000

The shareholders structure at 31 December 2011 is presented below:

	Number of ordinary shares	Statutory amount (RON)	Percentage (%)
Romanian State, represented by MEC	8,654,917	86,549,170	73.5097
Fondul „Proprietatea" SA	1,764,620	17,646,200	14.9876
Other shareholders	1,354,307	13,543,070	11.5027
	11,773,844	117,738,440	100.0000

(expressed in RON, unless otherwise stated)

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The shareholders structure at 31 December 2010 is presented below:

	Number of ordinary shares	Statutory amount (RON)	Percentage (%)
Romanian State, represented by MEC	8,654,970	86,549,700	73,5102
Fondul „Proprietatea" SA	1,764,620	17,646,200	14,9876
Other shareholders	1,354,254	13,542,540	11,5022
	11,773,844	117,738,440	100,0000

In its statutory books, before 1 January 2012, the Company has included in share capital certain revaluation reserves for revaluations made prior to 31 December 2001. For the purposes of preparation of these financial statements in accordance with EU IFRS, such increases have not been recognised as the hyperinflationary adjustments on fixed assets were recognised annually in the statement of comprehensive income up to 31 December 2003. Consequently, in these financial statements the Company has only recorded share capital contributed in cash or kind, inflated from the date of the original contribution to 31 December 2003 and the share capital increases which occurred after 1 January 2004 have been recognised in nominal terms.

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS

Other reserves

Prior to adoption of IFRIC 12, a reserve corresponding to public property assets (Notes 3.8 and 5.2) was included as part of equity under the heading "Public Property Reserves" at the value of the respective assets restated for the inflation up to 1 January 2004. This was renamed "Other reserves" upon adoption of IFRIC 12 (Note 3.5), to reflect the change in status of the related assets.

Legal reserve

In accordance with Romanian legislation and its Articles of Incorporation, the Company has to transfer five percent of its profits per statutory financial statements to a statutory reserve which can accumulate up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for distribution at 31 December 2012, amounted to RON 23,547,688 (31 December 2011: RON 23,547,688; 31 December 2010: RON 23,547,688). The legal reserve is included within "Retained earnings" in these financial statements.

(expressed in RON, unless otherwise stated)

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS (CONTINUED)

Dividends distribution

During year ended 31 December 2012, the Company has declared and distributed a dividend per share of RON 29.76 from the prior year profit (2011: RON 28.77 per share; 2010: RON 13.02 per share). Total dividends declared from 2011 profits are RON 350,389,597 (dividends declared from 2010 profit: RON 338,733,492; dividends declared from 2009 profit: RON 153,295,449).

At the General Shareholders Meeting from 29 April 2013, the Company will approve the distribution of profit for 2012.

Profit distribution	**Financial year ended 31 December 2011**	**Financial year ended 31 December 2010**
Net profit to be distributed:	379,571,465	376,352,986
Distribution to:		
- other reserve	(29,181,868)	(37,619,494)
- dividends	(350,389,597)	(338,733,492)
Profit not distributed	-	-

(expressed in RON, unless otherwise stated)

16. LONG TERM BORROWINGS

Non-current portion of long term borrowings

	Currency	31 December 2012	31 December 2011	31 December 2010
IBRD loan	USD	-	-	2,425,318
Unicredit Tiriac	RON	-	-	15,884,208
BRD Group Societe Generale (“BRD”)	RON	48,000,000	72,000,000	60,400,000
		48,000,000	72,000,000	78,709,526

Current portion of long term borrowings:

	Currency	31 December 2012	31 December 2011	31 December 2010
IBRD loan	USD	-	2,527,341	2,492,458
Unicredit Tiriac	RON	-	15,884,208	21,178,948
BRD	RON	24,000,000	24,000,000	15,100,000
		24,000,000	42,411,549	38,771,406

A description of the long term borrowing is as follows:

IBRD loan

The loan from the International Bank for Reconstruction and Development ("IBRD" - RO 3723) was provided for the rehabilitation of the oil and gas sector in Romania under a Project Agreement signed on 1 June 1994.

As holding company of the Romgaz group of companies, the entire loan was nominally repayable by SNGN Romgaz SA, the predecessor of the Company. However, in accordance with Government Decision 334/2000, following the restructuring of the gas sector in 2000, part of this borrowing was transferred to the newly created entities. The portion of the IBRD loan recognised by the Company is based upon an agreement concluded between the successor entities of SNGN Romgaz.

The Company also concluded a subsidiary loan agreement with the Ministry of Finance regarding its portion of this loan on 2 October 2001, and the original loan agreement between the Romanian Government and the IBRD has been amended to include the reorganisation of former Romgaz.

16. LONG TERM BORROWINGS (CONTINUED)

The loan is denominated in USD and carries an interest rate of 0.5% over the cost of Qualified Borrowings as defined by the IBRD. As at 31 December 2012 the loan is fully paid and as at 31 December 2011 the balance was USD 756,848 (31 December 2010: USD 1,534,646). The interest rate applicable in 2012 was approximately 10.92% (2011: approximately 11,22%; 2010: approximately 9.5%). Repayments are made twice a year. The principal and interest are repaid to the Ministry of Finance at least 15 days prior to the date of repayment by the Ministry of Finance to IBRD. Payments to Ministry of Finance may also be made in RON equivalent at the exchange rate at the date of payment plus a 5% refundable fee in order to protect the Ministry of Finance against foreign exchange losses and a 10% commission on the interest paid.

The loan is secured by a deposit pledged by the Company in favour of the Ministry of Finance. The deposit is equal to the following instalment to be repaid. As at 31 December 2011 the deposit amounts to USD 500,000 (31 December 2010: USD 507,666) being liquidated in 2012. In October 2012 the last instalment of the loan was reimbursed.

The maturity of the IBRD loan is set out below:

	31 December 2012	31 December 2011	31 December 2010
Within 1 year	-	2,527,341	2,492,458
Between 1 and 2 years	-	-	2,425,318
	-	2,527,341	4,917,776

Unicredit Tiriac loan

The loan was contracted on 31 October 2007 for funding of the Company's investment programme and carries an interest rate of BUBOR three months. The contracted value is RON 100,600,000. The loan was drawn completely and the repayments started in March 2008 in quarterly instalments. In September 2012 the last instalment of the loan was reimbursed.

The maturity of the Unicredit Tiriac loan is set out bellow:

	31 December 2012	31 December 2011	31 December 2010
Within 1 year	-	15,884,208	21,178,948
Between 1 and 2 years	-	-	15,884,208
	-	15,884,208	37,063,156

(expressed in RON, unless otherwise stated)

16. LONG TERM BORROWINGS (CONTINUED)

BRD GSG

The loan was contracted on 16 December 2010 for funding of the Company's investment programme and carries an interest rate of ROBOR three months + 0.5%. The contracted value is RON 120,000,000. The repayments will be made for a period of 5 years in quarterly instalments, the final repayment date being on 31 December 2015.

The maturity of the BRD loan is set out bellow:

	31 December 2012	31 December 2011	31 December 2010
Within 1 year	24,000,000	24,000,000	15,100,000
Between 1 and 2 years	24,000,000	24,000,000	15,100,000
Between 2 and 5 years	24,000,000	48,000,000	45,300,000
	72,000,000	96,000,000	75,500,000

The loans from BRD GSG and Unicredit Tiriac are collaterised by receivables from E.ON Gaz Romania SA, Interagro, Electrocentrale Galati, Termoelectrica SA and GDF SUEZ Energy Romania.

BRD GSG overdraft

The BRD overdraft agreement was concluded in 2004 with a RON 20,000,000 ceiling. It was subsequently extended until 29 August 2014 and its ceiling increased to RON 100,000,000. The facility is secured with a pledge on receivables from the contract with Azomures in amount of RON 6,940,785 as at 31 December 2012 (RON 6,085,725 as at 31 December 2011; RON 6,979,897 as at 31 December 2010). The balance on the overdraft facility was nil at 31 December 2012, RON 7,786 as at 31 December 2011 and nil in 2010. Interest rate as at 31 December 2012 is one year ROBOR + 0.7% p.a. (2011: one year ROBOR + 0.7% p.a., 2010: one year ROBOR + 0.9% p.a.).

The carrying amount of short-term borrowings approximates their fair value.

	31 December 2012	31 December 2011	31 December 2010
Current portion of long term borrowings	24,000,000	42,411,549	38,771,406
Overdraft	-	7,785,673	-
	24,000,000	50,197,222	38,771,406

(expressed in RON, unless otherwise stated)

16. LONG TERM BORROWINGS (CONTINUED)

Effective interest rate

Effective interest rate by category of loan can be summarized as follows:

	31 December 2012 (%)	31 December 2011 (%)	31 December 2010 (%)
Long term loans in USD	10.92	11.22	4.94
Long term loans in EUR	-	-	2.00
Long term loans in RON	6.10	6.45	5.89

Fair value

The carrying amounts and fair values of long-term borrowings are as follows:

	Carrying amounts 31 December			Fair values 31 December		
	2012	2011	2010	2012	2011	2010
IBRD	-	2,527,341	4,917,776	-	2,546,256	4,949,610
Unicredit Tiriac	-	15,884,208	37,063,156	-	15,900,411	37,138,632
BRD GSG	72,000,000	96,000,000	75,500,000	72,758,422	97,366,338	76,798,643
	72,000,000	114,411,549	117,480,932	72,758,422	115,813,005	118,886,885

Fair value is determined based on the discounted value of the future cash flows, using a discount rate equal to the interest rate at which the management considers that the Company could obtain similar borrowings, as at the end of the reporting period.

The exposure of the Company's borrowings to interest rate changes is as follows:

	31 December 2012	31 December 2011	31 December 2010
Variable interest rate	72,000,000	114,411,549	117,480,932

The variable interest rate can be further analysed as follows:

	31 December 2012	31 December 2011	31 December 2010
Reset within 6 months or less	72,000,000	114,411,549	117,480,932

(expressed in RON, unless otherwise stated)

16. LONG TERM BORROWINGS (CONTINUED)

The Company has following undrawn facilities:

	31 December 2012	31 December 2011	31 December 2010
Facilities in RON	100,000,000	92,214,327	45,000,000

17. DEFERRED INCOME

Deferred income consists of connection fees that are charged to customers for connecting them to the national gas transportation system or assets taken free of charge for connection to the transportation network. The Company uses the connection fees to establish the connection to the national transportation system of the client 'assets. The deferred income (shown as "revenue from connection fees") is released over the period in which related assets are depreciated (Note 22).

	Year ending 31 December 2012	Year ending 31 December 2011	Year ending 31 December 2010
Opening balance	350,311,199	296,387,937	174,730,164
Increases	26,600,593	66,913,066	130,330,635
Revenues from connection fees (Note 22)	(14,650,720)	(12,989,804)	(8,672,862)
Closing balance	362,261,072	350,311,199	296,387,937

(expressed in RON, unless otherwise stated)

18. INCOME TAX

Income tax expense

	Year ending 31 December 2012	Year ending 31 December 2011 (restated)	Year ending 31 December 2010 (restated)
Income tax expense – current	113,403,776	82,688,883	75,151,535
Deferred tax – impact of temporary differences	(49,793,388)	(8,160,876)	(6,849,000)
Income tax expense	63,610,388	74,528,007	68,302,535

In 2012, 2011 and 2010, the Company accrued income taxes at the rate of 16% on profits computed in accordance with the Romanian tax legislation.

	Year ending 31 December 2012	Year ending 31 December 2011 (restated)	Year ending 31 December 2010 (restated)
Profit before taxation	392,915,631	461,731,020	438,615,331
Theoretical tax charge at statutory rate of 16% (2011: 16%; 2010: 16%)	62,866,501	73,876,963	70,178,453
Tax effect of items which are not deductible or assessable for taxation purposes:			
Non-taxable income	(63,632,185)	(25,653,537)	(27,837,198)
Non-deductible expenses	18,460,252	26,304,581	25,961,280
Taxable equity components	(27,745,351)	-	-
Items assimilated to deductible expenses	73,661,171	-	-
Income tax expense	63,610,388	74,528,007	68,302,535
Income tax liability, current	57,339,891	26,808,208	22,126,286

With the adoption of EU IFRS as statutory reporting framework, cancelation of the revaluation reserve depreciation for which a deduction has been granted for the computation of the taxable income, represents an element similar to revenues and is being taxed.
The depreciation of the hyperinflation adjustments represents a deductible expense with the adoption of EU IFRS as statutory reporting framework.

(expressed in RON, unless otherwise stated)

18. INCOME TAX (CONTINUED)

Deferred tax

Deferred tax assets and /liabilities are measured at the enacted statutory effective tax rate of 16% as at 31 December 2012 (31 December 2011: 16%; 31 December 2010: 16%). Deferred tax assets and liabilities and deferred tax expense/ (income) recognised in the statement of comprehensive income are attributable to the following items:

	31 December 2012	Movement	31 December 2011 (restated)	Movement	1 January 2011 (restated)	Movement	1 January 2010 (restated)
Deferred tax liabilities							
Property, plant and equipment and intangible assets	100,342,752	(44,453,055)	144,795,807	(6,309,300)	151,105,107	(6,285,218)	157,390,325
Trade receivables	-	-	-	(1,303,826)	1,303,826	(1,457,828)	2,761,654
Deferred tax assets							
Accruals	-	-	-	-	-	1,249,332	(1,249,332)
Provision for employee benefits	(9,970,209)	(5,340,333)	(4,629,876)	(547,750)	(4,082,126)	(355,286)	(3,726,840)
	90,372,543	(49,793,388)	140,165,931	(8,160,876)	148,326,807	(6,849,000)	155,175,807

Deferred income tax liabilities for tangible and intangible non-current assets is due to the fact that: a) the tax base of the intangible assets does not include the inflation rate update; and b) the public domain assets are non depreciable from the fiscal point of view, regardless of how they are reflected in the accounting.

The variance in deferred income tax liabilities is due to the change of the tax base as a consequence of the adoption of EU IFRS as statutory reporting framework: in 2012 the tax base of the property, plant and equipment is represented by the historical cost updated with the inflation rate, while in 2010 and 2011 the tax base is represented by the value of property, plant and equipment (either historical cost, or the revalued cost until 2003, whichever the case), depreciated over the fiscal useful life.

(expressed in RON, unless otherwise stated)

18. INCOME TAX (CONTINUED)

The amounts shown in the statement of financial position include the following:

	31 December 2012	31 December 2011 (restated)	31 December 2010 (restated)
Deferred tax liabilities to be settled after more than 12 months as reported	90.372.543	140.165.931	148.326.807

19. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011	31 December 2010
Trade payables	80,293,647	105,938,875	112,797,896
Suppliers of fixed assets	24,163,963	30,696,041	45,934,147
Dividends payable	6,378,354	7,186,769	4,913,154
Payable to Ministry of Economy and Commerce (see below)	51,717,551	51,717,551	51,717,551
Royalty liabilities	38,915,572	40,300,893	39,533,837
Other taxes	13,761,024	16,682,386	12,067,342
Employees payable	20,324,714	19,507,448	11,122,734
VAT payable	25,885,958	17,573,244	16,739,091
Other liabilities	3,952,696	2,148,513	1,824,157
	265,393,479	291,751,720	296,649,909

In 2005 MEC decided to charge the Company the equivalent of late payment interest for declared and unpaid dividends dating from the period 2000-2003. Being payable to the sole shareholder at the time, in substance they represented an additional distribution to shareholders. The majority shareholder of the Company has informed the management that the payment of these penalties can be deferred until further notice, allowing the Company use of the respective amount for continuing to upgrade the gas transportation network.

As at 31 December 2012, RON 4,389,614 (31 December 2011: RON 4,151,322; 31 December 2010: RON 5,883,179) of trade and other payables are denominated in foreign currency, mainly EUR and USD.

Included in trade payables are balances due to related parties of RON 44,693,084 (31 December 2011: RON 56,978,798; 31 December 2010: RON 53,363,824), as presented in Note 27.

20. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2012	31 December 2011	31 December 2010
Current provision			
Provision for warranty	4,147,964	2,627,942	533,679
Provision for legal claims	4,418,640	1,175,558	5,202,347
	8,566,604	3,803,500	5,736,026

21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

Under the collective labour contract, the Company is required to pay its employees at the time of their retirement a lump-sum amount equal to a multiplier of their gross salary depending on the employment period in the gas industry, working conditions, etc. The present value of the provision was determined using the Projected Unit Credit Method. The following assumptions were used in the computation of the provision: a salary indexation rate related to the productivity increase rate, a staff turnover based on historical data and the time frame when the benefits are to be paid. The provision has been discounted to its present value by applying a discount factor based on the forward rate computed using Smith-Willson method applied to yield curve of government bonds denominated in RON issued by the Ministry of Public Finance during 2007-2011. In 2010, 2011 and 2012 a risk free interest rate was used (i.e. interest rate on government bonds issued in October 2010). Substantially all the amounts are payable in over one year.

The principal actuarial assumptions used for the computation at 31 December 2012 were as follows:

a) Discount rate:
- The following values were used: long term inflation rate 2% p.a, real yield long term rate for government bonds 2.2% p.a, forward rate 4.2% p.a, illiquidity rate for Romania 0%;

b) Inflation rate for 2012 was 4.95%, for 2013 was estimated to be 3.5% p.a and for 2014-2026 3% p.a and following a decreasing pattern afterwards;

c) Salary increase rate – for 2012 and subsequent years a salary increase rate of 3% over the consumer price index was estimated;

d) The mortality rate during employment was based on the Romanian Mortality Table issued by the Romanian National Institute of statistics.

The principal actuarial assumptions used for the computation at 31 December 2011 were as follows:

a) Discount rate:
- The following values were used: long term inflation rate 2% p.a, real yield long term rate for government bonds 2.2% p.a, forward rate 4.2% p.a, illiquidity rate for Romania 0%;

b) Inflation rate for 2011 was 3.14% and for the period 2012-2013 was estimated to be 3.5% p.a, for 2014-2026 3% p.a and following a decreasing pattern afterwards;

c) Salary increase rate – for 2011 and subsequent years a salary increase rate of 3% over the consumer price index was estimated;

d) The mortality rate during employment was based on the Romanian Mortality Table issued by the Romanian National Institute of statistics.

(expressed in RON, unless otherwise stated)

21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

Movement in provision for employee benefits

1 January 2010	23,292,752
Unwinding of the discount	2,258,184
Decrease of provision	(37,650)
31 December 2010	25,513,286
Unwinding of the discount	2,157,262
Increase of provision	1,266,178
31 December 2011	28,936,726
Unwinding of the discount	2,609,437
Increase of provision	30,767,646
31 December 2012	62,313,809

The increase in provision for employee benefits is due to the renegotiation of the Collective Labour Contract in 2012 by change in the amount due for retirement and in case of death, Collective Labour Contract is usually renegotiated every 3 or 5 years.

22. OTHER INCOME

	Year ending 31 December 2012	Year ending 31 December 2011	Year ending 31 December 2010
Income from penalties for late payment charged to customers	9,647,241	30,286,953	9,964,156
Revenue from connection fees and assets received free of charge	14,650,720	12,989,804	8,672,862
Revenues from rent	1,634,470	1,733,647	1,508,261
Revenues from sale of scrap materials	1,839,827	127,260	6,344
Revenues from design services	4,390,872	3,558,423	2,763,041
Sale of investment in Romexterra	-	-	11,333
Other operating revenues	5,218,988	12,827,605	6,700,466
	37,382,118	61,523,692	29,626,463

(expressed in RON, unless otherwise stated)

23. OTHER OPERATING EXPENSES

	Year ending 31 December 2012	Year ending 31 December 2011	Year ending 31 December 2010
Pipeline inspections	-	2,021,552	791,246
Sponsorship expenses	2,881,793	3,672,714	6,283,955
Utilities	7,019,939	6,308,894	5,512,957
Insurance premiums	1,155,014	1,691,427	1,525,762
Maintenance expenses	2,473,244	4,175,262	1,867,938
Security services	10,234,147	9,643,238	8,641,492
Design services	-	1,513,494	3,480,120
Training services	1,212,492	1,051,251	1,094,223
Telecom	3,919,766	3,781,665	3,849,945
Loss on disposal of fixed assets, net	122,261	(389,100)	1,281,015
Bank and other commissions	923,363	1,074,842	913,417
Rent	968,375	842,108	1,117,482
Bad debts written off	40,638	2,822,998	42,051
Impairment loss on accounts receivable (credit)	9,354,580	(6,326,518)	(29,153,575)
Impairment loss/(gain) on inventory	(556,033)	(715,992)	2,233,835
Research expenses	1,337,160	584,508	699,362
Marketing and protocol expenses	1,818,253	2,161,596	2,396,416
Penalties and fines	1,043,044	5,112,665	2,889,913
Other	15,523,107	8,676,641	12,036,461
Total	59,471,143	47,703,245	27,504,015

24. NET FINANCIAL INCOME/ (EXPENSE)

	Year ending 31 December 2012	Year ending 31 December 2011	Year ending 31 December 2010
Foreign exchange gains	39,425,385	40,399,080	19,158,959
Interest income	15,364,229	18,719,668	14,836,179
Other finance income	-	-	169,883
Finance income	54,789,614	59,118,748	34,165,021
Foreign exchange losses	(20,257,021)	(30,182,212)	(20,870,769)
Interest expense	(3,928,582)	(7,084,461)	(2,748,627)
Unwinding of the discount provision for employee benefit	(2,609,437)	(2,157,262)	(2,258,184)
Other finance loss	-	-	(3,238)
Finance costs	(26,795,040)	(39,423,935)	(25,880,818)

(expressed in RON, unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS

	Year ending 31 December 2012	Year ending 31 December 2011	Year ending 31 December 2010
Profit before tax	392,915,631	461,731,020	438,615,331
Adjustments for:			
Depreciation and amortisation	164,539,650	159,558,719	142,993,223
Loss on disposal of fixed assets	122,261	(389,100)	1,281,015
Provisions for liabilities and charges	4,763,104	(1,932,526)	5,550,587
Revenues from connection fees	(14,650,720)	(12,989,804)	(8,672,862)
Provision for employee benefits	30,767,646	1,266,178	2,220,534
Release of provisions for impairment of receivables	9,354,580	(6,326,518)	(29,153,575)
Impairment loss/(gain) on inventory	(556,033)	(715,992)	2,233,835
Bad debts written off	40,638	2,822,998	42,051
Interest expense	3,928,582	7,084,461	2,748,627
Unwinding of the discount provision for employee benefit	2,609,437	2,157,262	2,258,184
Interest income	(15,364,229)	(18,719,668)	(14,836,179)
Effect of exchange rate changes on non-operating items	21,205	(153,661)	822,351
Other revenue	(1,073,530)	(1,235,809)	-
Operating profit before working capital changes	577,418,222	592,157,560	546,103,122
(Increase)/decrease in trade and other receivables	10,661,745	(27,015,020)	(80,824,230)
(Increase)/decrease in inventories	7,954,346	(14,881,020)	5,018,879
Increase / (decrease) in trade and other payables	(16,737,915)	10,632,450	49,206,338
Cash generated from operations	579,296,398	560,893,970	519,504,109

26. OTHER EMPLOYEE BENEFITS

According to the collective labour agreements, during 2010, 2011 and 2012, the employees were entitled to receive free of charge the equivalent of 6,500 cubic meters of gas a year per employee (computed at monthly medium domestic price per cubic meter). The total amount of benefits granted to employees during financial year 2012 is RON 51,479,308 (2011: RON 50,812,955, 2010: RON 49,930,251). The average price in 2012 for 1,000 mc is RON 1,257.63 (nominal – 119.34 RON/MwH). The average price in 2011 for 1,000 mc is RON 1,247 (nominal – 117.51 RON/MwH). The average price in 2010 for 1,000 mc is RON 1,254 (nominal – 115 RON/MwH).

(expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party, to exercise significant influence over the other party in making financial or operational decisions, is under common control with another party, is a joint venture in which the entity is a venturer or is part of the key management personnel as defined by IAS 24 "Related Party Disclosure". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

During the years ended 31 December 2012, 31 December 2011 and 31 December 2010 the following transactions were carried out with related parties and the following balances were payable/receivable at the respective dates:

i) Revenues from related parties - services provided (VAT excluded)

	Relationship	2012	2011	2010
SNGN Romgaz	Entity under common control	1,315,072	741,399	2,002,430
Termoelectrica	Entity under common control	2,203,521	10,533,794	5,409,918
Electrocentrale Deva SA	Entity under common control	6,856,492	6,331,636	5,959,629
Electrocentrale Bucureşti SA	Entity under common control	126,439,326	141,496,053	129,070,196
Electrocentrale Galaţi SA	Entity under common control	20,486,336	22,364,821	22,842,735
		157,300,747	181,467,703	165,284,908

(expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

ii) Sales of other goods and services (VAT excluded)

	Relationship	31 December 2012	31 December 2011	31 December 2010
SNGN Romgaz	Entity under common control	164,884	170,202	157,014
Electrocentrale Deva SA	Entity under common control	-	-	10,437
Electrocentrale Bucureşti SA	Entity under common control	3,947,503	2,569,154	500
Electrocentrale Galaţi SA	Entity under common control	28,696	24,968	23,856
		4,141,083	2,764,324	191,807

iii) Receivables from related parties

	Relationship	31 December 2012	31 December 2011	31 December 2010
SNGN Romgaz	Entity under common control	16,772	195,459	208,326
Termoelectrica (net of provision)	Entity under common control	207,954	4,069,777	1,140,069
Electrocentrale Deva SA	Entity under common control	1,756,013	1,935,049	1,081,044
Electrocentrale Bucureşti SA	Entity under common control	56,955,263	66,513,220	46,717,105
Electrocentrale Galaţi SA	Entity under common control	4,867,690	6,643,378	7,293,962
		63,803,692	79,356,883	56,440,506

iv) Acquisitions of gas from related parties (net of VAT)

	Relationship	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
SNGN Romgaz	Entity under common control	118,925,375	143,588,344	134,173,113

(expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

v) Acquisitions of services from related parties (other services – net of VAT)

	Relationship	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Termoelectrica	Entity under common control	6,952	5,717	-
SNGN Romgaz	Entity under common control	1,467,194	1,402,486	235,291
Electrocentrale Deva SA	Entity under common control	10,645	19,468	12,168
Electrocentrale București SA	Entity under common control	11,920	11,838	9,986
		1,496,711	1,439,509	257,445

vi) Payables to related parties

	Relationship	31 December 2012	31 December 2011	31 December 2010
SNGN Romgaz	Entity under common control	44,505,387	56,811,500	53,345,941

vii) Payables to related parties (other services)

	Relationship	31 December 2012	31 December 2011	31 December 2010
SNGN Romgaz	Entity under common control	127,464	145,722	923
Termoelectrica București	Entity under common control	42,453	489	-
Electrocentrale București SA	Entity under common control	1,380	1,339	1,094
Electrocentrale Deva SA	Entity under common control	16,400	19,748	15,866
		187,697	167,298	17,883

(expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

viii) Connection fees paid

	Relationship	31 December 2012	31 December 2011	31 December 2010
Termoelectrica	Entity under common control	-	4,922,841	7,682,895

ix) Key management compensation

	Year ending 31 December 2012	Year ending 31 December 2011	Year ending 31 December 2010
Salaries paid to key management	5,130,150	4,460,830	3,664,425
Company's social contributions	1,373,040	1,193,954	981,113
	6,503,190	5,654,784	4,645,538

During the financial years ended at 31 December 2012, 31 December 2011 and 31 December 2010 were not granted any advances and loans to the Company's administrators and management, except for those related to salaries and business travel, the administrators and the management do not owe the Company any amounts in respect of such amounts at the end of the financial year.

The Company does not have pension liabilities towards directors and administrators of the Company.

x) Loan to related party

	Year ending 31 December 2012	Year ending 31 December 2011	Year ending 31 December 2010
Loan to Resial SA	1,770,346	1,781,843	1,781,843
Less provision for impairment of loan	(1,770,346)	(1,781,843)	(1,781,843)
	-	-	-

Dividends distributed are presented in Note 15. Royalties paid are presented in Note 3.8.

(expressed in RON, unless otherwise stated)

28. EARNINGS PER SHARE

The Company's shares are listed under the first category of the Bucharest Stock Exchange.

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ending 31 December 2012	**Year ending 31 December 2011 (restated)**	**Year ending 31 December 2010 (restated)**
Profit attributable to equity holders of the Company	329,305,243	387,203,013	370,312,796
Weighted average number of shares	11,773,844	11,773,844	11,773,844
Basic and diluted earnings per share (RON per share)	27.97	32.89	31.45

29. SIGNIFICANT NON-CASH TRANSACTIONS

Mutual cancellations

Approximately 0.14% of accounts receivable were settled via non-cash transactions during the year ended 31 December 2012 (2011: 0.15%; 2010: 2%). The transactions represent mainly sale of products and services in exchange for raw materials and services or cancellation of mutual balances with customers and suppliers within the operating cycle.

Barter transactions

There were no barter transactions during 2012 and 2011 and 2010.

30. PRIOR PERIODS RESTATEMENTS

Prior to 31 December 2012 the Company did not record any deferred tax in respect of public property assets (see Note 3.8). The tax base of these assets was nil and the Company considered that a permanent difference exist between the tax and accounting base.

In 2012 the Company performed a detailed analysis considering the following:

- Profits resulting from operating the public property assets (reclassified as intangible asset as per IFRIC 12 in 2010) are subject to income tax and the tax base of the public property assets will also be nil in the future. Therefore, a temporary difference exists between the tax and accounting base of these assets, which generate deferred income tax.

(expressed in RON, unless otherwise stated)

30. PRIOR PERIODS RESTATEMENTS (CONTINUED)

- The same assets described above were updated in terms of the measuring unit at each reporting period (see IAS 29 “Financial Reporting in Hyperinflationary Economies”) and such adjustment was not considered for tax purposes. Therefore, it results in a new temporary difference.

Based on the above factors the Company concluded that deferred tax liability should be recognised. These financial statements include the following restatements:

	2009
Increase in deferred tax liability	(65,851,000)
(Decrease) in retained earnings	65,851,000

	2010
Increase in deferred tax liability	(62,988,000)
(Decrease) in income tax expense	(2,863,000)
(Decrease) in retained earnings	65,851,000

	2011
Increase in deferred tax liability	(60,123,000)
(Decrease) in income tax expense	(2,865,000)
(Decrease) in retained earnings	62,988,000

Earnings per share, basic and diluted (in RON per share)	**2011**	**2010**
Reported	32.64	31.21
Restated	32.89	31.45

Up to 31 December 2012 the Company included in intangible assets 6 pipelines used for transit activity, commissioned between 1975 and 1979 that were part of the Concession Agreement signed in 2002. The Company wrongly classified as transportation assets, therefore they have been reclassified to property, plant and equipment. These financial statements include the following adjustments:

(expressed in RON, unless otherwise stated)

30. PRIOR PERIODS RESTATEMENTS (CONTINUED)

	2009
Increase in property, plant and equipment	64,289,853
(Decrease) in intangible assets	(64,289,853)

	2010
Increase in property, plant and equipment	61,494,642
(Decrease) in intangible assets	(61,494,642)

	2011
Increase in property, plant and equipment	58,699,431
(Decrease) in intangible assets	(58,699,431)

31. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

i) Commitments

The Service Concession Agreement (S.C.A.-Note 8) specifies that, at the end of its term., ANRM has the right to receive back, free of any charge or encumbrance, all public property assets existing at the time when the agreement was signed and all the investments which are done to the gas pipeline system, according to the investments programme set out in the S.C.A.. The Company also has other obligations in respect of the S.C.A.as described in Note 8.

The minimum investment plan for 2012 – 2016 was approved through Government Decision 919/2012.

ii) Taxation

The Romanian taxation system has recently undergone a process of consolidation and harmonisation with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (accruing at a rate of approximately 0,04% daily in 2012, same for 2011). In Romania, tax periods remain open for 5 years. The Company's management considers that the tax liabilities included in these financial statements are fairly stated.

In accordance with Finance Minister Order 881/2012, the Company should prepare IFRS-compliant statutory financial statements as of 2012, with the statements to be used as a basis for determining the fiscal liabilities of the Company. Given that the fiscal rules applicable to taxpayers that comply with IFRS accounting regulations are new, there is risk that inspectors for a future tax inspection will have an interpretation different from that of the Company on how the fiscal base should be determined.

31. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

iii) Insurance policies

The Company holds no insurance policies in relation to its operations, product liability, or in respect of public liability. The Company has insurance policies for buildings and mandatory third party liability insurance for its car fleet. Furthermore, the Company concluded professional indemnity insurance for 60 managers (59 managers in 2011 and 54 managers in 2010).

iv) Environmental matters

Environmental regulations are developing in Romania and the Company has not recorded any liability at 31 December 2012, 31 December 2011 and 31 December 2010 for any anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, related to environmental matters. Management do not consider the costs associated with environmental issues to be significant.

v) Legal proceedings and other proceedings

From time to time, claims against the Company are received. The Company is involved in a pending litigation case on its being deprived of the use of the plots of land on which SNT structures are located. On the basis of its own estimates and both internal and external professional advice the Company's management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements and they are not aware of any circumstances which may give rise to a potential material liability in this respect.

In 2012, the Company received a request for data and information in the inquiry opened by the Competition Council by the Order 759 of 29 September 2011 and extended by Order 836 of 1 November 2011. The Company provided the requested data and information. Based on its own estimates, Company's management believes that are no circumstances that give rise to significant potential liabilities in this regard.

vi) Government policy in the gas sector in Romania

ANRE is an autonomous public body and establishes the gas transportation tariffs charged by the Company. It is possible that the Agency might decide to implement any changes in Governmental strategies in the gas sector, which could lead to changes to the tariffs authorised for the Company and hence significantly impact the Company's revenue. Similarly, Romanian Government may decide to change the royalty charged to the company for use of the public property assets under its service concession agreement (Note 8).

It is not possible to establish at this stage the effects, if any, of future Government policy in the gas sector in Romania on the value of the assets and liabilities of the Company.

There are different approaches regarding the legislation in use. Under certain circumstances ANRE may treat differently certain aspects proceeding with the computation of additional tariffs and late payment penalties. The Company's management is confident that its liabilities towards ANRE are properly presented in this financial statements.

31. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

vii) Nabucco project

The Nabucco consortium reached an agreement in principle with the prospective investors and the Shah Deniz consortium on the joint financing of the development costs for the Nabucco West conduit until a decision is made on the selection of the gas export route to Europe. The selection process for the gas transportation from Shah Deniz II gas field is still ongoing. The final choice between Nabucco West or Trans Adriatic pipe line (TAP) is expected to be taken by the consortium Shah Deniz by the end of the second trimester of the year 2013. When the financial statements were prepared, no contracts had been signed with prospective suppliers from the Caspian Sea and the Middle East, and should no such contract be signed, the construction of the Nabucco pipeline might not start at all.

32. SUBSEQUENT EVENTS

Nabucco project

The bill on the ratification of the Nabucco Project Support Agreement signed by Romania in June 2011 is under parliamentary debate.

On 18 January 2013, the Cooperation Agreement and the Agreement for Financing and Acquiring a Participating Interest in Nabucco Gas Pipeline International GmbH (NIC) were signed by the NIC partners, NIC and the prospective investors in the Shah Deniz consortium, subject to internal approvals. The Agreements were endorsed by the Board of Directors and will be submitted for the approval of the General Shareholders Assembly during its 4 March 2013 meeting.

Extraordinary General Meeting of Shareholders from 29 January 2013 approved the change of participation quota owned by the Company in Nabucco from 17.38% to 17.48%.

Legislative issues

Regulations occurred during 2013 with impact in the Company's activity:

- *Goverment Ordinance no 22/22 January 2013, which establishes the acquisition price for natural gas from domestic production used for the regulated market.* This impacts the acquisition price of the gas used as technological consumption;

- *Government Ordinance no 5/22 January 2013 related to special taxation rules of the activities performed as natural monopol in energy and gas industries.* This establishes a taxation on the monopol the Company has on the gas transportation activity;

- *ANRE Order no 7/20 February 2013, related to changes in the Methodology of prices approval and tariffs applicable in the regulated gas market, as approved by ANRE Order 22/2012.* This order allows the transportation tariff to have a binominal structure until the approval of the methodology related to tariffs for capacity reservation on the entry-exit points.