

**THE NATIONAL NATURAL GAS TRANSMISSION COMPANY
"TRANSGAZ" S.A.**

**FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDING ON DECEMBER 31
2013**

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

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STATEMENT OF FINANCIAL POSITION
(expressed in RON, if not specified otherwise)

	<u>Note</u>	<u>31 December 2013</u>	<u>31 December 2012</u> (restated)
ASSET			
Fixed assets			
Intangible Assets	9	2,533,955,229	2,495,791,792
Tangible Assets	7	694,970,616	742,427,911
Financial assets available for sale	10	<u>5,953,263</u>	<u>105,356,906</u>
		<u>3,234,879,108</u>	<u>3,343,576,609</u>
Current assets			
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Inventories		34,054,464	35,827,551
Commercial receivables and other receivables	12	398,892,681	347,781,745
Cash and cash equivalent	13	<u>267,261,555</u>	<u>178,637,942</u>
		<u>700,208,700</u>	<u>562,247,238</u>
Total asset		3,935,087,808	3,905,823,847
EQUITY AND DEBTS			
Equity			
Share capital	14	117,738,440	117,738,440
Hyperinflation adjustment of share capital	14	441,418,396	441,418,396
Share premium	14	247,478,865	247,478,865
Other reserves	15	1,265,796,861	1,265,796,861
Retained earnings	15	<u>1,000,200,731</u>	<u>915,143,887</u>
		3,072,633,293	2,987,576,449
Long-term debts			
Long-term loans	16	24,000,000	48,000,000
Provision for employee benefits	21	59,468,378	59,337,529
Deferred incomes	17	370,180,329	362,261,072
Deferred tax payment	18	<u>85,768,551</u>	<u>90,372,543</u>
		539,417,258	559,971,144

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

STATEMENT OF FINANCIAL POSITION
(expressed in RON, if not specified otherwise)

	<u>Note</u>	<u>31 December 2013</u>	<u>31 December 2012</u> (restated)
Current debts			
Commercial debts and other debts	19	262,154,273	255,368,831
Provision for risks and charges	20	21,010,439	18,591,252
Current tax payment	18	11,335,145	57,339,891
Provision for employee benefits	21	4,537,400	2,976,280
Short-term loans	16	<u>24,000,000</u>	<u>24,000,000</u>
		<u>323,037,257</u>	<u>358,276,254</u>
Total debts		<u>862,454,515</u>	<u>918,247,398</u>
Total equity and debts		<u>3,935,087,808</u>	<u>3,905,823,847</u>

Endorsed and signed on behalf of the Board of Directors on March 17th 2014 by:

Chairman of the Board,
 Ion Sterian

General Manager
 Petru Ion Vaduva

Director of the Economic Department
 Marius Lupean

STATEMENT OF COMPREHENSIVE INCOME
(expressed in RON, if not specified otherwise)

	<u>Note</u>	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012 (restated)</u>
Revenues from the domestic transmission activity		1,210,480,230	1,052,112,211
Revenues from the international transmission gas transit		268,537,107	275,875,022
Other revenues	22	<u>37,622,967</u>	<u>37,382,118</u>
		1,516,640,304	1,365,369,351
Depreciation	7, 9	(180,880,113)	(164,539,650)
Wages, salaries and other salary related expenses		(292,079,720)	(284,268,737)
Technological consumption, materials and consumables used		(121,422,078)	(145,183,283)
Expenses with royalties		(147,901,734)	(132,798,723)
Maintenance and transport		(71,436,133)	(111,307,785)
Other benefits to employees	26	(54,912,669)	(51,479,308)
Taxes and other amounts owed to the state		(54,333,044)	(15,531,417)
Expenses with the provision for employee benefits	21	2,122,997	(29,136,789)
Expenses with the provision for risks and charges		(2,419,187)	(5,100,602)
Other operating expenses	23	<u>(57,580,948)</u>	<u>(59,471,143)</u>
Operating profit		535,797,675	366,551,914
Financial incomes	24	40,721,110	54,789,614
Financial expenses	24	<u>(146,585,986)</u>	<u>(26,795,040)</u>
Financial incomes, net		(105,864,876)	27,994,574
Profit before tax		429,932,799	394,546,488
Profit tax expense	18	<u>(95,441,384)</u>	<u>(63,610,388)</u>
Net profit for the period		334,491,415	330,936,100
Earnings per share, basic and diluted (expressed in RON per share)	28	28,41	28,11
Other comprehensive income			
Actuarial gain/(loss) for the period	21	1,230,568	(1,630,857)
Total comprehensive income for the period		<u>335,721,983</u>	<u>329,305,243</u>

Chairman of the Board,
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Director of the Economic Department
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STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
 (expressed in RON, if not specified otherwise)



	<u>Note</u>	<u>Share Capital</u>	<u>Share capital adjustments</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings (restated)</u>	<u>Total equity (restated)</u>
Balance on 01 January 2012		<u>117,738,440</u>	<u>441,418,396</u>	<u>247,478,865</u>	<u>1,265,796,861</u>	<u>936,228,241</u>	<u>3,008,660,803</u>
Net profit for the period		-	-	-	-	330,936,100	330,936,100
Other comprehensive income that will not be reclassified in the profit/(loss) for the period							
Actuarial gain/loss for the period		-	-	-	-	(1,630,857)	(1,630,857)
<i>Transactions with shareholders</i>							
Dividends related to 2011	15	-	-	-	-	(350,389,597)	(350,389,597)
Balance on 31 December 2012		<u>117,738,440</u>	<u>441,418,396</u>	<u>247,478,865</u>	<u>1,265,796,861</u>	<u>915,143,887</u>	<u>2,987,576,449</u>
Net profit for the period		-	-	-	-	334,491,415	334,491,415
Other comprehensive income that will not be reclassified in the profit/(loss) for the period							
Actuarial gain/loss for the period		-	-	-	-	1,230,568	1,230,568
<i>Transactions with shareholders</i>							
Dividends related to 2012	15	-	-	-	-	(250,665,139)	(250,665,139)
Balance on 31 December 2013		<u>117,738,440</u>	<u>441,418,396</u>	<u>247,478,865</u>	<u>1,265,796,861</u>	<u>1,000,200,731</u>	<u>3,072,633,293</u>

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CASH FLOWS STATEMENT
(expressed in RON, if not specified otherwise)



	<u>Note</u>	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012 (restated)</u>
Cash generated from operations	25	635,391,071	579,296,398
Interest paid		(2,865,061)	(3,962,230)
Interest received		9,702,795	15,601,120
Profit tax paid		<u>(146,050,120)</u>	<u>(82,871,969)</u>
Net cash inflow from operating activities		496,178,685	508,063,319
Cash flow from investment activities			
Payments to acquire tangible and intangible assets		(174,045,634)	(168,504,120)
Proceeds from disposal of tangible assets		135,275	112,214
Purchase of financial investments, net		<u>(11,267,530)</u>	<u>(39,972,954)</u>
Net cash used in investment activities		(185,177,889)	(208,364,860)
Cash flow from financing activities			
Dividends paid		(253,386,244)	(350,122,482)
Cash flows from connection fees and grants		55,009,061	5,114,231
Proceeds from long term loans		-	-
Repayments of long term loans		<u>(24,000,000)</u>	<u>(42,413,120)</u>
Net cash used in financing activities		(222,377,183)	(387,421,371)
Net change in cash and cash equivalents		88,623,613	(87,722,912)
Cash and cash equivalent at beginning of year	13	<u>178,637,942</u>	<u>266,360,854</u>
Cash and cash equivalent at end of year	13	<u>267,261,555</u>	<u>178,637,942</u>

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NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

1. GENERAL INFORMATION

The National Natural Gas Transmission Company - SNTGN Transgaz SA ("Company") has as main activity the transmission and distribution of natural gas. Also, the Company maintains and operates the national natural gas transmission system, is involved in the international transmission of natural gas and carries out research and design activities in the area of natural gas transmission. On December 31st 2013, the majority shareholder of the Company is the Romanian State, through the Ministry of Public Finance.

The Company was established in May 2000, following several reorganizations of the gas sector in Romania: its predecessor was part of the former national gas monopoly SNGN Romgaz SA ("Predecessor Company"), which was reorganized under Government Decision 334/2000.

The natural gas sector is regulated by the "National Energy Regulatory Authority" - "ANRE". ANRE's main responsibilities are the following:

- issuing or withdrawing licenses for companies operating in the natural gas sector;
- publishing framework contracts for the sale, transmission, acquisition and distribution of natural gas;
- setting the criteria, requirements and procedures related to the selection of eligible consumers;
- setting the pricing criteria and the calculation methods for the natural gas sector.

The Company is headquartered at Piața C.I. Motaș nr. 1, Mediaș, Romania.

These financial statements were authorized to be issued by the Board of Directors on March 17th 2014.

From January 2008, the company is listed on the Bucharest Stock Exchange, as a Tier 1 Company, under TGN symbol.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

2. OPERATIONAL FRAMEWORK OF THE COMPANY

Romania

2013 was a complicated year from an economic point of view, in the context in which Romania had to repay large amounts of the foreign debt and the EU, the main commercial partner of the country, is far from finding a solution to its own financial problems. However, Romania was a good performer in 2013:

- (i) The GDP of our country increased in 2013 by 3.5% compared to 2012, exceeding the expectations of the International Monetary Fund (IMF), which expected a 2.8% growth. Exports represented one of the growth engines. The National Institute of Statistics specified that they registered an absolute record last year, of EUR 50bn. In 2012, GDP recorded a 0.2% growth.
- (ii) In 2013, Standard & Poor's (S&P) confirmed the credit ratings of Romania to "BB+" for long-term financing and "B" for short-term debts, respectively, with a positive outlook, assuming that the fiscal consolidation process would continue, with risks to the economic outlook. The "BB+" rating awarded to long-term debts of the Romanian state is by one notch below the "investment grade" category. Moody's is the only one of the large rating agencies that has maintained Romania throughout the financial category in the category of countries with rating recommended for long-term investments. Currently, Moody's awards Romania the "Baa3" rating, the last of the category recommended for long-term investments, with a negative outlook.
- (iii) In 2013, the RON/EUR exchange rate evolved within the 4.30-4.60 interval. In late 2013, RON posted a slight decline compared to the previous year (the official exchange rate of the National Bank of Romania for the EUR currency changed from 4.4287 on December 31st 2012 to RON 4.4847 on December 31st 2013).
- (iv) Romania ended 2013 with the lowest inflation after 1989, with an inflation rate within the inferior limit of NBR's target, an economic growth much above expectations, a fourfold increase in the absorption of European funds and record dynamics of industrial and agricultural production and of exports.

Recent legislative changes in Romania has generally followed the international developments: the exchange of information between countries to fight against tax evasion and tax avoidance, increasing the budgetary revenues through various methods (broadening the tax base, the introduction of new taxes, such as those in the energy sector or the new tax on constructions).

The future economic orientation of Romania largely depends on the efficiency of economic, financial and monetary measures taken by the government, as well as on the tax, legal, regulatory and political evolution. The management cannot estimate the evolution of the economic environment, which could have an impact on the Company's operations, or the potential impact on the financial position of the Company.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

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

The preparation of financial statements in accordance with EU IFRS requires the use of critical accounting estimates. Also, the management is required to use judgment in applying the Company's accounting policies. Areas with 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 regulations

The new or reviewed standards and interpretations mandatory for the accounting periods of the Company starting on January 1st 2013 and after, including:

Enhanced hyperinflation and the Elimination of fixed data for entities adopting IFRS for the first time - Amendments to IFRS 1 (issued in December 2010 and in force for the annual periods as of July 1st 2011; applicable for EU IFRS as of January 1st 2013). It is estimated that the amendment does not impact the financial statements of the Company.

The recovery of core assets - Amendments to IAS 12 (issued in December 2010 and in force for the annual periods as of January 1st 2012; applicable for EU IFRS as of January 1st 2013). It is estimated that the amendment does not impact the financial statements of the Company.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and applicable for the annual periods as of January 1st 2013; applicable for EU IFRS as of January 1st 2014) It is estimated that the amendment will not impact the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 11, Joint Commitments, (issued in May 2011 and applicable for the annual periods as of January 1st 2013; applicable for EU IFRS as of January 1st 2014), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities-Non-Monetary Contributions by Venturers". It is estimated that the amendment will not impact the financial statements of the Company.

IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and applicable for the annual periods as of January 1st 2013; applicable for EU IFRS as of January 1st 2014) The Company analyzes the effect of applying this amendment.

IFRS 13, Fair value measurement (issued in May 2011 and applicable for the annual periods as of January 1st 2013; applicable for EU IFRS as of January 1st 2013) It is estimated that the amendment does not impact the financial statements of the Company.

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after January 1, 2013, applicable to EU IFRS from January 1st 2014), was modified and its objective is now to prescribe the accounting provisions and disclosure for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Recommendations on control and consolidated financial statements have been replaced by IFRS 10, Consolidated Financial Statements. The Company analyzes the effect of applying this change.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after January 1st 2013; applicable to EU IFRS from January 1st 2014). The amendment to IAS 28 resulted from the IASB project on joint ventures. When discussing that project, the Council decided to include joint ventures accounting on equity method in IAS 28, as this method is applicable both to joint ventures and associated entities. With this exception, other recommendations remain unchanged. It is estimated that the amendment does not impact the financial statements of the Company.

Guidance changes on transition to IFRS 10, IFRS 11, IFRS 12 (issued on June 28th 2012 and effective for the annual periods as of January 1st 2013; applicable to EU IFRS as of January 1st 2014). The amendments clarify the guidance for transition to IFRS 10 *Consolidated financial statements*. Entities that adopt IFRS 10 should establish control on the first day of the reporting period in which IFRS 10 is adopted and if the conclusion of consolidation under IFRS 10 is different from IAS 27 and SIC 12, the comparative period (i.e. 2012 for entities that adopt IFRS 10 in 2013) is changed, except when it is not possible. The amendments also provide simplification of transition to IFRS 10, IFRS 11 "Joint Ventures" and IFRS 12 "Disclosure of Interests in Other Entities", limiting the requirement to provide comparative information adjusted for the previous period to that used as a comparison. Also, the amendments will replace the requirement to present comparative information for the disclosures relating to unconsolidated structures entities for periods prior to IFRS 12 to be applied for the first time. The Company analyzes the effect of applying this change.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments on IFRS 10, IFRS 12 and IAS 27 (issued on October 31st 2012 and effective for annual periods as of January 1st 2014; applicable to EU IFRS as of January 1st 2014) The amendments introduce a definition of an investment company as an entity that (i) obtains funds from investors in order to provide them with investment management services, (ii) undertakes to investors that the business objective is to invest funds only for capital growth or income from investments and (iii) measures and evaluates its investments on a fair value basis. An investment company must register its subsidiaries at fair value in the profit or loss account and consolidate those subsidiaries which provide services related to the entity's investments. IFRS 12 was modified to introduce new requirements relating to presentation, including significant judgments used in determining whether an entity is an investment company and information about the financial support or other support granted to an unconsolidated subsidiary, regardless if this support is at intention level or it has already been granted to the subsidiary. The Company analyzes the effect of applying this change.

Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning on or after January 1, 2014, inclusively; early application is possible if IFRS 13 is effective for the same reporting accounting period). These amendments remove the requirement of Recoverable amount disclosures for impaired assets if the cash-generating unit contains goodwill or intangible assets with indefinite life and there has been no impairment. The Company analyzes the effect of applying this change.

Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (issued on June 27th 2013 and effective for the annual periods after January 1st 2014, inclusively). The amendments allow the continuation of hedge accounting in the situation when a derivative financial instrument appointed as hedge instrument is novate (more specifically, the parties agreed to replace the initial provider with a new one) to perform centralized clearing activities through a third party, as a consequence of laws or regulations, if certain specific conditions are met. The Company analyzes the effect of applying this change.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for the annual periods as of January 1st 2014; applicable for EU IFRS as of January 1st 2014). The amendment added recommendations on IAS 32 application to correct inconsistencies identified in the application of certain offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross compensation systems may be considered equivalent to net settlement. The Company analyzes the effect of applying this change.

Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, applicable for the annual periods as of July 1st 2012; applicable for EU IFRS as of January 1st 2013), changes in the presentation of elements included in other elements of the comprehensive result. The amendments require entities to separate the items presented in other items of the comprehensive result into two groups, depending on whether they can be reclassified in the profit or loss in the future or not. The recommended title used by IAS 1 has changed from "profit and loss account in other items of the comprehensive result". The changed standard determined a changed presentation of financial statements, but had no impact on transactions and balances.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amended IAS 19, Employee Benefits (issued in June 2011, effective for annual periods as of January 1st 2013; applicable to EU IFRS as of January 1st 2013), brings significant changes in the recognition and assessment of expenses with benefits determined from pensions and activity termination benefits and in the information to be provided for all the employee benefits. The standard requires recognition of all changes in the net obligation (claim) regarding the defined benefits when they occur, as follows: (i) the cost of services and the net interest in profit or loss; and (ii) reassessments in other items of the comprehensive result. The company presented the impact in Note 21.

IFRIC 20, Stripping costs in the production phase of a surface mine (issued in October 2011 and effective for the annual periods as of January 1st 2013; applicable to EU IFRS as of January 1st 2013). The interpretation specifies that benefits from stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent they are made in the form of stock products. To the extent that benefits represent an improved access to ore, the entity shall recognize those costs as "asset from the stripping activity" under current assets, subject to certain criteria. It is estimated that the amendment does not impact the financial statements of the Company.

Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods as of January 1st 2013; applicable to EU IFRS as of January 1st 2013). Amendment provides for the provision of information to enable users of financial statements of an entity to assess the potential effect of offsetting commitments, including rights of offset. It is estimated that the amendment does not impact the financial statements of the Company.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Government loans (effective for annual periods as of January 1st 2013). The amendments, which treat loans from the government, with a reduced rate of interest, grant entities adopting IFRS for the first time an exemption from full retrospective application of IFRS when they account for these loans in transition. It will apply the same exemption as entities that adopt IFRS for the first time and those already applying these standards. It is estimated that the amendment does not impact the financial statements of the Company.

Amendments to International Financial Reporting Standards (issued in May 2012 and effective for annual periods as of January 1st 2013). The amendments consist of changes to five standards.

IFRS 1 was amended to (i) clarify that an entity that begins to prepare IFRS financial statements can either repeatedly apply IFRS 1 or apply IFRS retroactively as if it never ceased to apply it and (ii) to add an exemption from the application of IAS 23 "Borrowing Costs", retrospective for the first time IFRS adopters.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 1 was amended to clarify that the explanatory notes are not needed to support the third balance sheet presented at the beginning of the previous period when it is provided, because it was significantly affected by previous adjustments, accounting policy changes or reclassification for presentation purposes, while the explanatory notes are required when an entity voluntarily decides to provide additional comparatives. IAS 16 was amended to clarify that the spare parts and working equipment are generally presented as inventories and recognized as expenses when consumed. However, major spare parts and spare equipment should be recorded as tangible assets when they are expected to be used for more than one year. IAS 32 was amended to clarify that some effects of taxation of distributions to shareholders should be recorded in profit or loss as has always been required by IAS 12. IAS 34 was amended to align with the requirements of IFRS 8. IAS 34 will require the disclosure of an assessment of the total assets and liabilities related to a reporting segment only if such information is regularly provided to the director of operations and there was a significant change in these assessments compared to last yearly financial statements. It is estimated that the amendment does not impact the financial statements of the Company.

New or revised standards and interpretations not yet been adopted by the European Union

IFRS 9, Financial Instruments: Classification and evaluation. 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 meet the classification and valuation of financial liabilities in December 2011 and to (i) replace the date of entry into force with the annual periods as of January 1st 2015 and (ii) add transitional disclosures. The key features of this standard are:

- Financial assets must be classified into two valuation categories: those subsequently valued at fair value and those subsequently valued at amortized cost. The decision will be made at initial recognition. The classification depends on the entity's business model used in managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently valued at amortized cost only if it is a debt instrument and if (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows and (ii) the contractual cash flows of the asset represent only payments of loan and interest (that is, they have only "basic loan features"). All other debt instruments shall be measured at fair value through profit or loss.
- All equity instruments shall be subsequently measured at fair value. Equity instruments held for trading will be measured at fair value through profit or loss. For all other equity instruments, an irrevocable choice on initial recognition can be made, consisting of recognition, consisting of the recognition of gains and losses realized and unrealized at fair value, through other items of the comprehensive result, and not through profit or loss. There will be no reversal of gains and losses at the fair value in the profit and loss account. This choice will be made separately, for each instrument. Dividends shall be presented in profit or loss, as long as they represent the return on investment.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Most IAS 39 provisions on the classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The main change was that the entity will have to present the effects of changes in credit risk of financial liabilities designated at fair value through profit or loss in other items of the comprehensive income.

IFRIC 21 - Taxes (issued on May 20th 2013 and applicable for the annual periods as of January 1st 2014). The interpretation clarifies the accounting for the obligation to pay a fee that is not a profit tax. The chargeable event giving rise to the obligation to pay the fee is set out in legislation. The fact that an entity is economically required to continue to operate in a future period or to prepare financial statements in accordance with the going concern principle does not create an obligation. The same principles of recognition apply in the intermediary and annual financial statements. Implementation of interpretation for liabilities arising from transactions with green certificates is optional.

Amendments to IAS 19 - Benefit plan: Employees' contributions (issued in November 2013 and applicable for the annual periods as of July 1st 2014) Changes give the possibility to entities to recognize the employees' contributions as a reduction of the cost of providing the service for the period when the service is actually provided by the employee, without contributing to the periods of service provision, if the value of employees' contributions is independent from the number of years of service.

Annual improvements to IFRSs 2012 (issued in December 2013 and applicable for the annual periods as of July 1st 2014, if not specified otherwise). Improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of "vesting condition" and define separately the "performance condition" and "the service provision condition"; The amendment is applicable for transactions with share-based payment whose date is on or after 1 July 2014.

IFRS 3 was changed to clarify that (1) the obligation to pay a contingent liability that meets the definition of a financial instrument is classified as a financial or capital liability, based on the definitions of IAS 32 and (2), contingent liabilities that are not of capital nature, both financial and non-financial, are valued at fair value at each reporting date, with changes in fair value recognized in the profit and loss account. Amendments to IFRS 3 are applicable for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require that (1) the disclosure of judgments made by management on the aggregation of business segments, including a description of the segments that have been aggregated and economic indicators that have been taken into account in determining the aggregate segments have similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that the elimination of certain paragraphs of IAS 39 after the publication of IFRS 13 was not made with the intention to eliminate the possibility to present short-term receivables and liabilities at the invoiced value, if the impact of trade discounts is irrelevant.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 16 and IAS 38 were amended to clarify how the gross book value and accumulated depreciation are treated if an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides services to the management personnel of the reporting entity or the parent company of the reporting entity ("management entity") and to include the obligation to provide the amounts charged to the reporting entity by the management entity for services rendered.

Annual improvements of IFRSs 2013 (issued in December 2013 and applicable for the annual periods as of July 1st 2014). Improvements consist of changes to four standards.

Basis for Conclusions on IFRS 1 is amended to clarify that, if a new version of a standard is not yet mandatory, but is available for early adoption, a first-time adopter may use either the new version or the previous one, provided that the same standard should apply to all periods presented.

IFRS 3 was amended to clarify that it is not applicable to joint commitments regulated by IFRS 11. The amendment also clarifies that exemption only applies to joint commitments of the financial statements.

The amendment to IFRS 13 clarifies that exemption allowing an entity to assess the fair value of a group of financial assets and financial liabilities on a net basis applies to all contracts (including contracts for the sale or purchase of non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 do not exclude each other. Guidelines in IAS 40 help differentiate between the characteristics of real estate investment and those of real estate properties used by the owner. Those who prepare the financial statements must also refer to recommendations included in IFRS 3 to determine whether the acquisition of a real estate investment is a business combination.

IFRS 14 Deferral Accounts (issued in January 2014 and applicable for the annual periods as of January 1st 2016). IFRS 14 allows those who adopt IFRS for the first time to recognize the amounts related to rate regulation in accordance with generally accepted accounting principles used previously. However, to increase comparability with entities that already apply IFRS and do not recognize these amounts, the standard requires that the effect of rate regulation be submitted separately. An entity already presenting IFRS financial statements is not eligible to apply the standard.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Reporting on segments

Reporting on business segments is made consistently with the internal reporting by the main operating decision-maker. The main operating decision-maker, which is in charge with resource allocation and assessment of business segments' performance, was identified as being the Board of Directors, which makes the strategic decisions.

3.3 Transactions in foreign currency

a) Functional currency

The items included in the financial statements of the Company are valued using the currency of the economic environment where the entity operates ("functional currency"). The financial statements are presented in Romanian leu ("lei"), which is the functional currency and the currency of Company presentation.

b) Transactions and balances

Transactions in foreign currency are converted into functional currency using the exchange rate valid on the date of transactions or valuation at the balance sheet date. Profit and loss resulting from exchange rate differences following the conclusion of such transactions and from the conversion at the exchange rate at the end of the reporting period of monetary assets and liabilities denominated in foreign currency are reflected in the statement of comprehensive income.

On December 31st 2013, the exchange rate communicated by NBR was 1 U.S. dollar ("USD") = 3.2551 lei (RON) (December 31st 2012: 1 USD = 3.3575 RON) and 1 Euro ("EUR") = 4.4847 RON (December 31st 2012: 1 EUR = 4.4287 RON) and 1 GBP ("GBP") = RON 5.3812 RON (December 31st 2012: 1 GBP = 5.4297 RON).

3.4 Accounting for the effects of hyperinflation

Romania has gone through periods of relatively high inflation and was considered hyperinflationary under IAS 29 "Financial Reporting in Hyperinflationary Economies". This standard required financial statements prepared in the currency of a hyperinflationary economy to be presented in terms of purchasing power as of December 31st 2003. As the characteristics of the economic environment in Romania indicate the cessation of hyperinflation, from January 1st 2004, the Company no longer applies IAS 29.

Therefore, values reported in terms of purchasing power on December 31st 2003 are treated as basis for the accounting values of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Intangible Assets

Computer Software

Licenses acquired related to rights of use of the computer software are capitalized on the basis of the costs incurred with the acquisition and operation of the software in question. These costs are amortized over their estimated useful lives (three years). Costs associated with developing or maintaining computer software are recognized as expenses in the period in which they are registered.

Service Concession Agreement

From 2010, the Company started to apply IFRIC 12, "Service Concession Commitments", adopted by the EU. The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, modernization and improvement brought to the pipeline system, which are transferred to the regulatory authority at the end of the concession agreement.

As presented in Note 8, the Company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right.

Due to the fact that the Service Concession Agreement ("SCA") had no commercial substance (i.e. nothing substantial has changed in the way the company operated assets; cash flows have changed only with the payment of royalties, but, on the other hand, the transmission tariff increased to cover the royalty), the intangible asset was measured at the remaining net value of derecognized assets (classified in the financial statements as tangible assets on the date of application of IFRIC 12). Consequently, the Company has continued to recognize the asset, but reclassified it as intangible asset. The company has tested the intangible assets recognized at the time without identifying depreciation.

As they occur, costs of replacements are recorded as expense, while the improvements of assets used within SCA are recognized at fair value.

Intangible assets are amortized at zero value during the remaining period of the concession agreement.

3.6 Tangible Assets

Tangible assets include buildings, land, assets used for the international transmission activity (e.g. pipelines, compressors, gas filters, devices).

Buildings include especially ancillary buildings of operating assets, a research center and office buildings.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Further expenses are included in the book value of the asset or recognized as separate asset, as the case may be, only when the entry of future economic benefits for the Company associated to the item is likely and the cost of the respective item can be valued in a reliable manner. The book value of the replaced asset is highlighted. All the other expenses with repairs and maintenance are recognized in the statement of the comprehensive income in the financial period when they occur.

Land is not depreciated. Depreciation on other items of tangible assets is calculated based on the straight line method in order to allocate their cost minus the residual value, during their useful life, as follows:

	<u>Number of years</u>
Buildings	50
Assets of the gas transmission system	20
Other fixed assets	4 - 20

Before December 31st 2008, costs of indebtedness were incurred as they occurred. As of January 1st 2009, costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are capitalized as part of the cost of the respective asset. Costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are those costs of indebtedness that would have been avoided if expenses with the asset hadn't been made. To the extent that funds are borrowed specifically for obtaining a long-cycle production asset, the borrowing costs eligible for the capitalization of the respective asset is determined by the actual cost generated by that borrowing during the period, minus the income from the temporary investments of those borrowings. To the extent that funds are generally borrowed and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset.

The capitalization 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 achieving production of a qualifying asset.

Assets' residual values and useful lives are reviewed and adjusted as appropriate, at the end of each reporting period.

The book value of the asset is written down immediately to its recoverable amount if the book value of the respective asset is greater than its estimated recoverable amount (Note 3.7).

Gains and losses on disposal are determined by comparing proceeds with book value and are recognized in the statement of comprehensive income in the period in which the sale took place.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Impairment of non-financial assets

Assets subject to depreciation are reviewed for impairment losses whenever events or changes in circumstances indicate that the book value may not be recoverable. The impairment loss is the difference between the book value and the recoverable amount of the asset. The recoverable amount is the greater of the asset's fair value minus costs to sell and value in use. An impairment loss recognized for an asset in prior periods is reversed if there are changes in the estimates used to determine the recoverable amount of the asset at the date the last impairment loss was recognized. For the calculation of this impairment, assets are grouped at the lowest levels for which there are identifiable independent 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 Assets of public domain

In accordance with the Law of Public Domain no. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of RON 474,952,575 (December 31st 2012: RON 474,952,575) representing gas pipelines are managed by the Company. Therefore, the Company has the exclusive right to use such assets during the concession and shall return them to the State at the end of this period (see Note 8). The company receives most of the benefits associated with the assets and is exposed to most of the risks, including the obligation to maintain network assets over a period at least equal to the remaining useful life, and the financial performance of the Company is directly influenced by the state of the network. Therefore, before January 1st 2010, the Company recognized those assets as tangible assets, with a proper reserve in the shareholders' equity (see note 5.2.). Accounting policies applied to these assets were the same as those applied to the Company's tangible assets (Notes 3.7 and 3.6).

As shown in Note 3.5, the Company adopted IFRIC 12 as of January 1st 2010 and reclassified these assets and the subsequent improvements as intangible assets (except for transit pipelines).

In accordance with the Law of Public Concession no. 238/2004, a royalty is due for public goods managed by companies other than state-owned. The royalty rate for using the gas transmission pipelines is set by the Government. As of October 2007, the royalty was set at 10% of the incomes. Duration of the concession agreement is 30 years, until 2032.

3.9 Financial assets

The company classifies its financial assets into the following categories: valued at fair value through profit or loss, loans and receivables and available for sale. Classification is made depending on the purpose for which the financial assets were acquired. The management sets the classification of these fixed assets upon initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

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 listed in an active market. They are included in the current assets, except for those that have a maturity greater than 12 months after the end of the reporting period. These are classified as fixed assets. Loans and receivables of the Company include "trade receivables and other receivables" and cash and cash equivalent in the statement of the financial position (Notes 3.11 and 3.13).

(b) Financial assets available for sale

Financial assets available for sale are non-derivative instruments that are either classified specifically in this category or they don't fall with any of the other categories. They are included in the fixed assets, except the situation when the management plans to alienate investments within 12 months from the end of the reporting period.

Regular acquisitions and sales of financial assets are recognized at the trading date - date when the Company commits to buy or sell the respective asset. Investments are initially recognized at the fair value plus trading expenses for all the financial assets that are not registered at fair value through profit or loss. Financial assets available for sale are subsequently recorded at fair value. Loans and receivables are registered at amortized cost using the effective interest method.

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

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account in "gains and losses from investment securities".

Dividends related to financial assets available for sale are recognized in profit or loss in other items of the comprehensive income when determining the Company's right to receive them.

(c) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets has suffered impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss generating event") and if that event (or events) that generates loss has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

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 debtor;
- breach of contract, such as default or delinquency in interest or loan payment;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise have had in view;
- it is likely that the debtor will go bankrupt or enter another form of financial reorganization;
- disappearance of the active market for that financial asset because of financial difficulties; or
- observable data indicate 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 for individual financial assets in the portfolio, including:
 - adverse changes in the payment status of debtors in the portfolio; and
 - economic conditions, at national or local level, that correlate with defaults, relating to the assets in the portfolio.

The Company assesses first whether objective evidence of impairment exists.

a) Assets stated at amortized cost

Impairment testing of trade receivables is described above.

For loans and receivables, the amount of the loss is measured as the difference between the asset's book value and the updated value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original rate; discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the credit rating of the borrower), resumption of impairment loss recognized previously recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Assets classified as available for sale*

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

3.10 Inventories

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

The cost is determined based on the first in, first out method. Where necessary, provision is made for obsolete and slow moving inventories. Individually identified obsolete inventories are provided for the full value or written off. For slow moving inventory, an estimate is made of the age of each main category on inventory rotation.

3.11 Trade receivables

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

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, minus the provision for impairment.

3.12 Value Added Tax

The value added tax must be paid to tax authorities based on monthly VAT declaration by the 25th of the following month, regardless of the collection of receivables from customers. Tax authorities allow the settlement of VAT on a net basis. If deductible VAT is higher than the output VAT, the difference is refundable at the request of the Company. That VAT can be refunded after a tax audit, or, failing that, if certain conditions are met. VAT on sales and purchases that have not been settled at the end of the reporting period is recognized in the statement of financial position at net value and disclosed separately as a current asset or liability. In cases where provisions were made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. Related VAT must be paid to the State and can be recovered only in the event of debtor prescription, as a result of bankruptcy decision.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Cash and cash equivalent

Cash and cash equivalents comprise cash on hand, availability in current accounts with banks, other short-term investments with high liquidity and with maturity terms of up to three months and overdrafts from banks. In the statement of financial position, overdraft facilities are highlighted in loans, under current liabilities.

3.14 Equity

Share capital

Ordinary shares are classified as equity.

Additional costs directly attributable to issue of new shares or options are shown in equity as a deduction, net of tax, from the receipts.

Dividends

Dividends are recognized as liabilities and deducted from equity at the end of the reporting period if they have been declared before or at the end of the reporting period. Dividends are recognized when they are proposed before the end of the reporting period, or when they were proposed or declared after the end of the reporting period but before the date the financial statements were approved for issue.

3.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs recorded. Subsequently, borrowings are stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss during the borrowings, based on the effective interest method.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer payment of debt for no less than 12 months after the end of the reporting period.

Current and deferred profit tax

Tax expense for the period includes the current tax and deferred tax and is recognized in profit or loss, unless it is recognized in other items of comprehensive income or directly in equity because it relates to transactions that are, in turn, recognized in the same or in a different period, in other items of the comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current profit tax expense is calculated based on the tax regulations in force at the end of the reporting period. The management periodically evaluates positions on tax returns regarding situations where the applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, based on the estimated amounts due to tax authorities.

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the accounting profit and the taxable income is not recognized. The deferred profit tax is determined based on tax rates (and legal regulations) in force until the end of the reporting period and which are expected to apply in the period in which the deferred profit tax asset is realized or the deferred profit tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit be derived from temporary differences.

3.16 Commercial debts and other debts

Suppliers and other payables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method.

3.17 Deferred incomes

Deferred incomes are recorded for connection taxes applied to customers upon their connection to the gas transmission network, for the objectives received free of charge and for grants collected. The deferred income is recorded in the profit and loss account for the useful life of related assets (connection pipes, metering and pressure regulating stations, meters).

3.18 Employee benefits

In the normal course of business, the Company makes payments to the Romanian State on behalf of its employees, for health funds, pensions and unemployment benefits. All the Company employees are members of the pension plan of the Romanian state, which is a fixed contribution plan. These costs are recognized in the profit and loss account with the recognition of salary expenses.

Benefits granted on retirement

Under the collective agreement, the Company must pay the employees on retirement a compensatory amount equal to a certain number of gross salaries, depending on the time worked in the gas industry, working conditions etc. The company recorded a provision for such payments (see Note 21).

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Social insurance

The Company records expenses related to its employees, as a result of granting social insurance benefits. These amounts mainly include the implicit costs of employing workers and, therefore, are included in salary expenses.

Gas aid

The Company also commits, under the collective agreement, to grant employees a material aid equal to the equivalent value of a certain amount of gas (see Note 26); these amounts are presented under "Other benefits to employees", for the period when they are recorded. The value of the gas aid is calculated at the regulated selling price applied to the amount agreed under the collective agreement.

Profit sharing and bonuses

The Company recognizes an obligation and expense for bonuses and profit sharing, based on a formula taking into account the profit attributable to the Company's shareholders, after certain adjustments. The Company recognizes an obligation where it is required under contract or where there is a past practice that has created an implicit obligation.

3.19 Provisions for risks and charges

The provisions for risks and charges are recognized when the Company has a legal or implicit obligation as a result of past events, when for the settlement of the obligation an outflow of resources is required, which incorporates economic benefits and for which a credible estimate can be made in terms of the obligation value. Where there are similar obligations, the probability for an outflow of resources to be necessary for settlement is set after the assessment of the obligation class as a whole. The provision is recognized even if the probability of an outflow of resources related to any item included in any obligation class is reduced. Where the Company expects the reimbursement of a provision, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is theoretically certain. Provisions are measured at the discounted value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects the 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 recognized as interest expense.

3.20 Income recognition

Income covers the fair value of amounts received or receivable from the sale of services and/or goods in the normal course of business of the Company. Income is recorded net of value added tax, returns, rebates and discounts.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company recognizes the incomes when their amount can be estimated with certainty, when it is probable that the entity collects future economic benefits and when certain criteria are met for each of the Company's activities as described below. The amount of income is not considered reliably estimated until all contingencies relating to the sale are settled. The Company bases its estimates on historical results, taking into account the type of customer, type of transaction and the specifics of each commitment.

a) Income from services

Income from domestic and international gas transmission is recognized at the time of delivery and assessment of the transported gas, according to the contract. The amounts of gas transported are evaluated and invoiced to customers on a monthly basis.

b) Income from the sale of goods

Income from the sale of goods is registered when the goods are delivered.

c) Interest income

Interest income is recognized proportionally, based on the effective interest method.

d) Income from dividends

Dividends are recognized when the right to receive payment is recognized.

e) Mutual compensation and barter transactions

A relatively reduced part of the sales and purchases are compensated by mutual agreements, barter or non-cash agreements. These transactions generally occur in the form of cancellation of balances, either bilaterally or through a chain involving several companies (see note 29).

Sales and purchases that are intended to be offset by mutual agreements, barter or non-cash agreements are recognized based on management's estimates of their fair value to be received or disposed of in non-cash compensation. Fair value is determined based on available market information.

Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities, and all operational activities represent current cash flows.

f) Income from penalties

Income from penalties for late payment is recognized when future economic benefits are expected for the Company.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

By nature of the activities performed, the Company is exposed to various risks, which include: market risk (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), credit risk and liquidity risk. Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company does not use derivative financial instruments to protect itself from certain risk exposures.

(a) Market risk

(i) Currency risk

The Company is exposed to currency risk by exposures to various foreign currencies, especially to USD and EUR. Currency risk is associated to assets (Note 12) and recognized liabilities.

The Company does not perform formal actions to minimize the currency risk related to its operations; thus, the Company does not apply hedge accounting. The management believes, however, that the Company is covered in terms of the currency risk, given that sales in foreign currencies (mainly incomes from international transmission) are used to settle liabilities denominated in foreign currencies.

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

	<u>2013</u>	<u>2012</u>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	3,654,009	2,663,068
USD depreciation by 10%	(3,654,009)	(2,663,068)
EUR appreciation by 10%	2,635,180	5,029,460
EUR depreciation by 10%	(2,635,180)	(5,029,460)

(ii) Price risk

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

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by its long and short-term borrowings, of which most have variable rates. Also, the Company is exposed to the interest rate risk by deposits with banks. The Company has not concluded any commitment to diminish the risk. For the average exposure in 2013, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the financial year and equity would have been by RON 829,187 (2012: profit of RON 787,254) lower/higher, especially as a result of reducing the interest rate for bank deposits, partially offset with the reduced expense with interest on floating rate obligations.

(b) *Credit risk*

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company has drawn up a number of policies, through their application ensuring that sales of products and services are made to proper customers. The book value of receivables, net of provisions for doubtful debts, represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the 5 main customers, which together account for 73% of the trade receivable balances on December 31st 2013 (2012: 73%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the provisions already made.

Cash is with financial institutions, which are considered as associated to a minimum performance risk.

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

(c) *Liquidity risk*

Cautious liquidity risk management involves keeping enough cash and funds available by a proper value of committed credit facilities.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The company projects cash flows. The financial function of the Company continually monitors the Company's liquidity requirements to ensure that there is sufficient cash to meet operational requirements, while maintaining a sufficient level of unused borrowing facilities (Note 16) at any time, so the company does not violate the limits or loan agreements (where applicable) for any of its borrowing facilities. These projections take into account the Company's debt financing plans, compliance with agreements, compliance with internal targets on the balance sheet indicators and, where appropriate, external regulations or legal provisions - for example, restrictions on currency.

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

The table below shows obligations on December 31st 2013 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on December 31st 2013 is as follows:

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

Maturity analysis of financial liabilities on December 31st 2012 is as follows:

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

Trade payables and other liabilities include trade payables, suppliers of fixed assets, dividends payable, payables to the Ministry of Economy and Trade and other payables (see note 19).

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management

Company's objectives related to capital management refer to keeping the Company's capacity to continue its activity in order to provide compensation to shareholders and benefits to the other stakeholders and maintain an optimal structure of the capital, as to reduce capital expenditure. There are no capital requirements imposed from outside.

As for the other companies in this sector, the Company monitors the capital based on the indebtedness degree. This coefficient is calculated as net debt divided by total capital. The net debt is calculated as total borrowings (including "current and long-term borrowings", as the statement of the financial position shows), except cash and cash equivalent. The total capital is calculated as "equity", according to the statement of the financial position, plus the net debt.

In 2013 and 2012, the Company's strategy was to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments if and when appropriate. The net indebtedness degree on December 31st 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Total borrowings (Note 16)	48,000,000	72,000,000
Except: cash and cash equivalents (Note 13)	<u>(267,261,555)</u>	<u>(178,637,942)</u>
Net cash position	<u>(219,261,555)</u>	<u>(106,637,942)</u>

Fair value estimate

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

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

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Critical accounting estimates and assumptions

The Company develops estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including predictions of future events that are believed to be reasonable under certain circumstances.

The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates and assumptions that have a significant risk of causing an important material adjustment to the book value of assets and liabilities within the next financial year are discussed below.

5.1 Assumptions for the determination of the provision for retirement benefits

This provision has been calculated based on estimates of the average wage, the average number of employees and the average number of wage payment at retirement, as well as based on the benefits payment scheme. The provision was brought to present value by applying a discount factor calculated based on the risk-free interest rate (i.e. interest rate on government bonds).

5.2 The accounting treatment of the concession agreement

As shown in Note 8, in May 2002 the Company concluded a Concession Agreement with the National Agency for Mineral Resources ("NAMR"), which entitles the Company to use the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the Company according to the Public Domain Law no. 213/1998, Government Decision ("GD") no. 491/1998 and GD no. 334 from 2000 by which the Company was established. According to the provisions of this agreement, the Company receives most of benefits associated to assets and is exposed to most of the risks. Therefore, the Company has recognized these assets in the statement of the financial position, with an appropriate reserve in equity. Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the Company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the Company's management considered that it is, in substance, an equity component, defined as the residual interest in the Company's assets after the deduction of all debts. In addition, because the Company and its predecessor, SNGN Romgaz SA, were controlled by the Romanian state, the publication of Public Patrimony Law (i.e. loss of property) and the reorganization of SNGN Romgaz SA into 5 companies can be treated as transactions with shareholders, in its capacity of shareholder, which supports the recognition of transactions in equity. As of 2010, the Company applied IFRIC 12 (Note 3.5).

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

5.3 The accounting treatment of royalties payable for using the national gas transmission system

As show in Note 8, the Company pays royalties, calculated as percentage of the gross income achieved from the operation of pipelines of the national gas transmission system. These costs were recognized as expenses, rather than deduction from income, because they are not of the nature of taxes collected from customers and sent to the state, given the nature of activity and the regulatory framework:

- the Company's income is based on tariffs approved by another regulator than that setting the level of royalties;
- expense with royalties is an item taken into consideration at the calculation of the transmission tariff;
- full recovery of any increase in royalties by future increases in the tariff is not guaranteed; and
- tariffs can increase with a delay of more than one year from the change of royalties (if the case may be).

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

6. INFORMATION ON SEGMENTS

Information on segments provided to the Board of Directors, which makes the strategic decisions for the reporting segments, related to the financial year ending on December 31st 2013, are:

	<u>Domestic gas transmission</u>	<u>Domestic gas activity</u>	<u>Unallocated</u>	<u>Total</u>
Incomes from domestic transmission	1,210,480,230	-	-	1,210,480,230
Incomes from the international transmission activity	-	268,537,107	-	268,537,107
Other revenues	<u>11,002,356</u>	<u>-</u>	<u>26,620,611</u>	<u>37,622,967</u>
Total incomes	1,221,482,586	268,537,107	26,620,611	1,516,640,304
Depreciation	(145,965,364)	(31,436,743)	(3,478,006)	(180,880,113)
Operating expenses other than depreciation	<u>(735,263,582)</u>	<u>(49,299,024)</u>	<u>(15,399,910)</u>	<u>(799,962,516)</u>
Operating result	-	-	-	535,797,675
Net financial gain	-	-	-	(105,864,876)
Profit before tax	-	-	-	429,932,799
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>(95,441,384)</u>
Net profit	-	-	-	334,491,415
Assets on segments	3,182,350,254	430,519,689	322,217,865	3,935,087,808
Liabilities on segments	751,496,738	13,392,012	97,565,765	862,454,515
Capital expenditure - increases in assets in progress	170,547,973	-	8,315	170,556,288
Non-cash expenses other than depreciation	14,683,300	487,496	127,806,316	142,977,112

Assets shown for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts.

Unallocated assets include:

Tangible and intangible assets	48,376,748
Financial assets	5,953,263
Cash	267,261,555
Other assets	<u>626,299</u>
	322,217,865

Unallocated liabilities include:

Deferred tax	85,768,551
Tax payable	11,335,145
Other debts	<u>462,069</u>
	97,565,765

Liabilities presented for the two main operating segments consist of payables and borrowings contracted by the Company for the acquisition of assets for the respective segments.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the impairment of inventories, other risk provisions.

International transmission services are provided for two foreign clients, while the transmission activity is performed for several domestic clients.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Incomes from domestic transmission	1,210,480,230	-	1,210,480,230
Incomes from the international transmission activity	-	268,537,107	268,537,107
Other revenues	<u>37,049,665</u>	<u>573,302</u>	<u>37,622,967</u>
	<u>1,247,529,895</u>	<u>269,110,409</u>	<u>1,516,640,304</u>

All the Company assets are in Romania. All the Company activities are carried out in Romania.

The Company has receivables from external customers amounting to RON 22,191,636 (2012: RON 22,546,287)

Information on segments provided to the Board of Directors, which makes the strategic decisions for the reporting segments, related to the financial year ending on December 31st 2012, are:

	<u>Domestic gas transmission</u>	<u>International gas transit</u>	<u>Unallocated</u>	<u>Total</u>
Incomes from domestic transmission	1,052,112,211	-	-	1,052,112,211
Incomes from the international transmission activity	-	275,875,022	-	275,875,022
Other revenues	<u>9,549,938</u>	-	<u>27,832,180</u>	<u>37,382,118</u>
Total incomes	1,061,662,149	275,875,022	27,832,180	1,365,369,351
Depreciation, restated	(125,478,351)	(35,238,575)	(3,822,724)	(164,539,650)
Operating expenses other than depreciation	<u>(773,062,699)</u>	<u>(52,979,485)</u>	<u>(9,866,460)</u>	<u>(835,906,644)</u>
Operating result	-	-	-	364,921,057
Net financial gain	-	-	-	27,994,574
Profit before tax	-	-	-	392,915,631
Profit tax, restated	-	-	-	<u>(63,610,388)</u>
Net profit, restated	-	-	-	329,305,243
Assets on segments	3,045,911,956	515,087,312	344,824,579	3,905,823,847
Liabilities on segments	755,979,967	9,580,804	152,686,627	918,247,398
Transfers from intangible assets in progress	281,675,660	102,176	45,051	281,822,887
Capital expenditure - increases in assets in progress	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

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

Assets shown for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts.

Unallocated assets include:

Fixed assets	51,934,120
Financial assets	105,356,906
Cash	178,633,441
Other assets	<u>8,900,112</u>
	344,824,579

Unallocated liabilities include:

Deferred tax (note 30)	90,372,543
Tax payable	57,339,891
Other debts	<u>4,974,193</u>
	152,686,627

Liabilities presented for the two main operating segments consist of payables and borrowings contracted by the Company for the acquisition of assets for the respective segments.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the impairment of inventories, other risk provisions.

International transmission services are provided for two foreign clients, while the domestic transmission activity is performed for several domestic clients. Income from transmission is obtained as follows: 67% from distribution companies, 33% from (large) eligible customers.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenues from the transmission activity	1,052,112,211	-	1,052,112,211
Revenues from the transmission activity	-	275,875,022	275,875,022
Other revenues	<u>36,860,228</u>	<u>521,890</u>	<u>37,382,118</u>
	<u>1,088,972,439</u>	<u>276,396,912</u>	<u>1,365,369,351</u>

All the Company assets are in Romania. All the Company activities are carried out in Romania.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

7. TANGIBLE ASSETS

	<u>Land and buildings</u>	<u>Assets of the transmission system</u>	<u>Other fixed assets</u>	<u>Assets in progress</u>	<u>Total</u>
Year ending on December 31st 2012					
Cost on January 1st 2012	242,552,353	969,502,245	232,608,761	2,305,345	1,446,968,704
Accumulated depreciation on January 1st 2012	<u>(91,410,291)</u>	<u>(427,980,755)</u>	<u>(166,711,797)</u>	-	<u>(686,102,843)</u>
Initial net book value	151,142,062	541,521,490	65,896,964	2,305,345	760,865,861
Inflows	-	21,385,367	559,317	16,726,327	38,671,011
Transfers	354,121	69,704	7,309,124	(7,732,949)	-
Outputs (net book value)	(86,389)	(66,497)	(79,445)	-	(232,331)
Expense with depreciation	<u>(6,711,161)</u>	<u>(34,549,190)</u>	<u>(15,616,279)</u>	-	<u>(56,876,630)</u>
Final net book value	<u>144,698,633</u>	<u>528,360,874</u>	<u>58,069,681</u>	<u>11,298,723</u>	<u>742,427,911</u>
Cost	242,556,113	990,885,435	236,204,988	11,298,723	1,480,945,259
Accumulated depreciation	<u>(97,857,480)</u>	<u>(462,524,561)</u>	<u>(178,135,307)</u>	-	<u>(738,517,348)</u>
Final net book value	<u>144,698,633</u>	<u>528,360,874</u>	<u>58,069,681</u>	<u>11,298,723</u>	<u>742,427,911</u>
Year ending on December 31st 2013					
Initial net book value	<u>144,698,633</u>	<u>528,360,874</u>	<u>58,069,681</u>	<u>11,298,723</u>	<u>742,427,911</u>
Inputs	713,010	-	425,871	8,815,364	9,954,245
Transfers	26,983,737	(4,627,472)	(5,200,893)	(17,155,372)	-
Outputs (net book value)	(2,333)	(19,228)	(95,746)	-	(117,307)
Expense with depreciation	<u>(11,292,656)</u>	<u>(34,256,854)</u>	<u>(11,744,723)</u>	-	<u>(57,294,233)</u>
Final net book value	<u>161,100,391</u>	<u>489,457,320</u>	<u>41,454,190</u>	<u>2,958,715</u>	<u>694,970,616</u>
Cost	276,318,655	981,934,809	220,028,197	2,958,715	1,481,240,376
Accumulated depreciation	<u>(115,218,264)</u>	<u>(492,477,489)</u>	<u>(178,574,007)</u>	-	<u>(786,269,760)</u>
Final net book value	<u>161,100,391</u>	<u>489,457,320</u>	<u>41,454,190</u>	<u>2,958,715</u>	<u>694,970,616</u>

The gross book value of fully depreciated assets, still used, is RON 163,209,830 (2012: RON 141,275,805).

Regarding assets developed by the Company that are not crucial for the provision of services according to the concession agreement, the state has the option to acquire these assets at the end of the concession agreement. The Company does not have the obligation to keep these assets until the end of the concession agreement and it is allowed to sell them. These assets do not fall within the scope of IFRIC 12. All the other assets that are part of the national gas transmission system, including improvements made after signing the concession agreement and which must be handed over to NAMR at the end of the concession agreement fall within the scope of IFRIC 12.

Assets used for the provision of international transmission services do not fall within the scope of IFRIC 12.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

8. SERVICE CONCESSION AGREEMENT

In May 2002, the Company concluded a service concession agreement ("SCA") with NAMR, which entitles the Company to operate the main pipelines (trunklines) of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the Company according to the Public Domain Law no. 213/1998, Government Decision ("GD") no. 491/1998 and GD no. 334 from 2000 by which the Company was established. All modernizations and improvements made by the Company to the system are considered part of the system and become property of NAMR at the end of their useful life. The Company cannot sell or discard any asset part of the national transmission system; withdrawals can only be made with the approval of the State.

Upon expiration of the agreement, the assets belonging to the public domain existing at the time of signing the agreement and all investments made in the system will be returned to the State free of charge. The Company owns and will develop other assets that are not part directly of the national gas transmission system, but are complementary assets for gas transmission operations. NAMR has the option to buy these assets at the end of the concession agreement, at the fair value.

The main terms of the Concession Agreement are the following:

- The Company is entitled to operate directly the assets subject to the Concession Agreement and to apply and collect tariffs for domestic and international transmission from customers in exchange for services provided; the Company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;
- Any change of tariffs must be proposed by the Company to NAMR and then approved by ANRE;
- The Company is exempt from the payment of import duties for assets acquired for operation, improvement or development of the system;
- The Company must annually publish the available capacity of the system for the following year, by October 30th;
- The Company must annually respond to the customers' orders by November 30th and NAMR must be informed on all refused orders decided by the Company's management;
- The Company must keep a specific level of functioning (guaranteed through a mandatory minimum investment program);
- royalties are paid as percentage (by September 30th 2007: 5%, as of October 2007: 10%) of the gross income from the operation of the national transmission system (domestic and international transmission);
- all operating expenses for operating the system are incurred by the Company;
- The Company may cancel the agreement by notifying NAMR 12 months in advance;
- NAMR may cancel the agreement by a 6-month prior notice, if the Company fails to comply with the contractual conditions; it also has the option to cancel the agreement with a 30-day prior notice for "national interest" reasons; in this case, the Company will receive compensation equal to the average net profit of the past 5 years multiplied by the remaining duration of the agreement.

The concession agreement does not include an automatic renewal clause.

The terms of the Concession Agreement haven't been amended after June 2003, except for the approval of the minimum investment plans.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

9. INTANGIBLE ASSETS

	<u>SCA</u> <u>Related</u> <u>assets</u>	<u>Computer</u> <u>software</u>	<u>Intangible</u> <u>assets</u> <u>in progress</u>	<u>Total</u>
On December 31st 2012				
Cost on January 1st 2012	5,075,309,306	64,042,027	340,751,812	5,480,103,145
Accumulated depreciation at January 1, 2012	<u>(2,965,748,489)</u>	<u>(56,143,887)</u>	-	<u>(3,021,892,376)</u>
Initial net book value	2,109,560,817	7,898,140	340,751,812	2,458,210,769
Inputs	-	4,134,076	145,244,043	149,378,119
Transfers	247,657,058	-	(247,657,058)	-
Outputs	-	-	(4,134,076)	(4,134,076)
Depreciation	<u>(102,573,439)</u>	<u>(5,089,581)</u>	-	<u>(107,663,020)</u>
Final net book value	<u>2,254,644,436</u>	<u>6,942,635</u>	<u>234,204,721</u>	<u>2,495,791,792</u>
Cost	5,322,966,364	68,176,103	234,204,721	5,625,347,188
Accumulated depreciation	<u>(3,068,321,928)</u>	<u>(61,233,468)</u>	-	<u>(3,129,555,396)</u>
Net book value	<u>2,254,644,436</u>	<u>6,942,635</u>	<u>234,204,721</u>	<u>2,495,791,792</u>
On December 31st 2013				
Initial net book value	2,254,644,436	6,942,635	234,204,721	2,495,791,792
Inputs	1,377,005	71,103	161,740,924	163,189,032
Transfers	191,101,139	4,115,989	(195,217,128)	-
Outputs	-	-	-	-
Amortization	<u>(119,266,868)</u>	<u>(4,952,483)</u>	-	<u>(124,219,351)</u>
Provisions for impairment	-	-	<u>(806,244)</u>	<u>(806,244)</u>
Final net book value	<u>2,327,855,712</u>	<u>6,177,244</u>	<u>199,922,273</u>	<u>2,533,955,229</u>
Cost	5,515,444,508	48,986,155	200,728,517	5,765,159,180
Accumulated depreciation	<u>(3,187,588,796)</u>	<u>(42,808,911)</u>	-	<u>(3,230,397,707)</u>
Provisions for impairment	-	-	<u>(806,244)</u>	<u>(806,244)</u>
Net book value	<u>2,327,855,712</u>	<u>6,177,244</u>	<u>199,922,273</u>	<u>2,533,955,229</u>

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

10. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale consist of un-listed stakes in the following companies:

<u>Company</u>	<u>Activity</u>	<u>% Percentage owned 2013</u>	<u>% Percentage owned 2012</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Resial SA	Production	68.16	68.16	18,116,501	18,116,501
	Production distribution and supply of natural gas				
Mebis SA	natural gas	17.47	17.47	6,461,736	6,461,736
Nabucco Gas Pipeline International GmbH	Gas transmission	17.93	17.38	138,544,435	105,356,852
Nabucco Gaz Pipeline LTD Sirketi		-	0.5	-	54
Minus provision for impairment of investments in:					
Resial and Mebis				(24,578,237)	(24,578,237)
Nabucco Gas Pipeline International GmbH				(132,591,172)	-
				<u>5,953,263</u>	<u>105,356,906</u>

Shares in Resial SA

Shares owned in Resial SA were obtained in December 2003, as a result of a procedure for the recovery of claims due from a customer. Resial SA went into liquidation in 2006; the procedure is carried out by a bailiff appointed by the court and is outside the control of the Company, which is why the stake is not consolidated and is recorded at cost less provision for impairment amounting to 100% of the cost. The loan granted to Resial SA is also fully provisioned. The management does not expect the Company to recover any amount of this stake and the Company does not guarantee any type of residual obligations for Resial SA.

Shares in Mebis SA

Shares owned in Mebis SA were obtained in February 2004, as a result of a procedure for the recovery of claims due from a customer. Mebis SA is in liquidation procedure, which is why the stake in Mebis SA has been fully provisioned. The Company has no obligations to Mebis SA.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

10. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

Shares in Nabucco Gas Pipeline International GmbH

Nabucco Gas Pipeline International GmbH ("NIC") is a limited liability company, based in Vienna, Austria, established to build a gas transmission pipeline from the Caspian Sea through Turkey, Bulgaria, Romania and Hungary to Austria.

The Company has participated with BOTAS - Turkey, Bulgargaz - Bulgaria, MOL - Hungary and OMV Gas & Power GmbH - Austria to the share capital of NIC, each company holding a 20% stake in the share capital. In February 2008, the share capital of NIC was increased by the contribution of a new shareholder, RWE Gas Midstream Germany.

The Company's stake in the Nabucco project in late 2012 was 17.38% (RON 105,356,852), as a result of refusal of shareholder FGSZ Hungary to ensure the future funding for the project.

On December 31st 2013, NIC's ownership structure was the following: BOTAS - Turkey 17.93% (2012: 17.38%), Bulgargaz - Bulgaria 17.93% (2012: 17.38%), SNTGN Transgaz SA - Romania 17.93% (2012: 17.38%), MOL - Hungary 10.35% (13.10%), OMV Gas & Power GmbH - Austria 35.86% (2012: 17.38%) (as a result of buying the stake owned by RWE Gas Midstream Germany (2012: 17.38%)).

In June 2013, the final decision of the Shah Deniz group, the Azerbaijani gas supplier, was made, deselecting the Nabucco West project as an option to carry natural gas from the Shah Deniz 2 field, which prompted NIC shareholders to make the decision to close, in a controlled manner, the Nabucco companies (NIC and subsidiaries).

The fair value of the investment cannot be estimated, because the shares are not listed.

On December 31st 2013, the Company's investment in NIC was RON 138,544,435 (December 31st 2012: RON 105,356,852), for which a provision of RON 132,591,172 was established. For the difference of RON 5,953,263, for which there are prospects of recovery as a result of NIC liquidation process, no provision has been established. The Shah Deniz Group financed in the first half of 2013 two share capital increases in favor of NIC shareholders, the amount related to Transgaz being RON 21,920,000. For this amount, the Company has registered an income from the grant it had benefited from.

Shares in Nabucco Gas Pipeline Limited Şirketi

On June 18th 2010, NABUCCO GAS PIPELINE LIMITED ŞIRKETI Turkey was established, located in Ankara (a subsidiary of Nabucco Gas Pipeline International GmbH), with 5 shareholders: Nabucco Gas Pipeline International GmbH, BOTAS - Turkey, Bulgargaz - Bulgaria, SNTGN Transgaz SA - Romania, MOL - Hungary and OMV Gas & Power GmbH - Austria.

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

In November 2013, Transgaz sold to NIC the stake held in its Turkish subsidiary, at the face value of the share of TRL 25.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

11. INVENTORIES

	<u>31 December 2013</u>	<u>31 December 2012</u>
Gas inventories	10,388,000	10,388,000
Spare parts and materials	31,215,906	32,098,301
Provisions for slow moving inventories	<u>(7,549,442)</u>	<u>(6,658,750)</u>
	<u>34,054,464</u>	<u>35,827,551</u>

Under ANRE Order no. 2 issued on January 20th 2011, 20mln cu m (212 thousand MWh) of gas was stored in the underground storage facilities.

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	<u>31 December 2013</u>	<u>31 December 2012</u>
Trade receivables	415,962,124	378,482,000
Advance payments to suppliers	20,062,868	923,074
Undue VAT	1,627,472	2,134,385
Loan to Resial SA (Note 10)	1,770,346	1,770,346
Other receivables	14,558,994	19,398,557
Provision for impairment of trade receivables	(43,703,129)	(41,424,036)
Provision for impairment of other receivables	<u>(11,385,994)</u>	<u>(13,502,581)</u>
	<u>398,892,681</u>	<u>347,781,745</u>

On December 31st 2013, the amount of RON 43,108,052 (December 31st 2012: RON 27,280,240) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 43% in USD (2012: 69%) and 57% in EUR (2012: 31%).

Trade receivables include balances with related parties amounting to RON 0 (December 31st 2012: RON 63,803,692), as presented in Note 27.

Trade receivables were pledged as collateral for banks for loans, as mentioned in Note 16. The total amount of receivables pledged on December 31st 2013 is RON 69,395,056 (December 31st 2012: RON 63,939,722).

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

12. TRADE RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Analysis based on the quality of trade receivables and other receivables is as follows:

	2013		2012	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Current and not impaired (1)	<u>231,540,586</u>	<u>26,409,953</u>	<u>201,971,648</u>	<u>9,949,562</u>
Overdue but not impaired				
- overdue less than 30 days	114,246,925	160,096	102,253,997	186,973
- overdue between 30 and 90 days	7,848,354	57,887	26,969,834	74,887
- overdue more than 90 days	<u>18,623,130</u>	<u>5,750</u>	<u>5,862,485</u>	<u>512,359</u>
Due, but not impaired - total (2)	<u>140,718,409</u>	<u>223,733</u>	<u>135,086,316</u>	<u>774,219</u>
Impaired (gross)				
- overdue between 30 and 90 days	1,193,275	2,102	1,040,665	17,051
- overdue between 30 and 360 days	1,834,103	2,883,896	6,591,220	3,826,831
- overdue more than 360 days	<u>40,675,751</u>	<u>8,499,996</u>	<u>33,792,151</u>	<u>9,658,699</u>
Total impaired (3)	43,703,129	11,385,994	41,424,036	13,502,581
Except the provision for impairment (4)	<u>43,703,129</u>	<u>11,385,994</u>	<u>41,424,036</u>	<u>13,502,581</u>
Total trade receivables and other receivables (1+2+3-4)	<u>372,258,995</u>	<u>26,633,686</u>	<u>337,057,964</u>	<u>10,723,781</u>

Analysis by credit quality of current and not impaired financial assets can be made based on historical information on issues related to the recovery of these receivables.

	<u>December 31st 2013</u>	<u>December 31st 2012</u>
Group 1	163,415,006	149,598,937
Group 2	<u>68,125,580</u>	<u>52,372,711</u>
Trade receivables	<u>231,540,586</u>	<u>201,971,648</u>

Group 1 - existing customers/related parties where there were no recovery problems.

Group 2 - existing customers/related parties where payment delays were recorded in the past, most of the receivables being recovered.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

12. TRADE RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Movements in the provision account are analyzed below:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Provision on January 1 st	54,926,617	45,583,534
(Income)/expense with the provision for doubtful debts (Note 23)	<u>162,506</u>	<u>9,343,083</u>
Provision on December 31 st	<u><u>55,089,123</u></u>	<u><u>54,926,617</u></u>

13. CASH AND CASH EQUIVALENT

	<u>31 December 2013</u>	<u>31 December 2012</u>
Cash at bank in RON	245,704,410	124,493,626
Cash at bank in foreign currencies	21,447,041	54,031,727
Other cash equivalents	<u>110,104</u>	<u>112,589</u>
	<u><u>267,261,555</u></u>	<u><u>178,637,942</u></u>

Cash at bank in foreign currencies is mostly denominated in USD.

The weighted average effective interest related to short-term bank deposits was 3.84% on December 31st 2013 (December 31st 2012: 4.56%) and these deposits have an average maturity of 30 days. Deposits with initial maturity of up to 3 months are also included.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

14. SHARE CAPITAL AND SHARE PREMIUM

IFRS	<u>Number of ordinary shares</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Total</u>
On December 31 st 2012	11,773,844	117,738,440	247,478,865	365,217,305
On December 31 st 2013	11,773,844	117,738,440	247,478,865	365,217,305
Capital adjustment to the hyperinflation accumulated on December 31 st 2003	=	<u>441,418,396</u>	=	<u>441,418,396</u>
On December 31 st 2013	11,773,844	559,156,836	247,478,865	806,635,701

The authorized number of ordinary shares is 11,773,844 (December 31st 2012: 11,773,844) with a face value of RON 10 each. Each share represents one vote. Ownership structure on December 31st 2013 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value (RON)</u>	<u>Percentage (%)</u>
The Romanian State, represented by the Ministry of Public Finance	6,888,840	68,888,400	58,5097
Other shareholders	<u>4,885,004</u>	<u>48,850,040</u>	<u>41,4903</u>
	<u>11,773,844</u>	<u>117,738,440</u>	<u>100,0000</u>

The ownership structure on December 31st 2012 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value (RON)</u>	<u>Percentage (%)</u>
The Romanian State, represented by the Ministry of Economy and Trade	8,654,917	86,549,170	73,5097
Fondul „Proprietatea” SA	1,764,620	17,646,200	14,9876
Other shareholders	<u>1,354,307</u>	<u>13,543,070</u>	<u>11,5027</u>
	<u>11,773,844</u>	<u>117,738,440</u>	<u>100,0000</u>

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

In the statutory accounting, before January 1st 2012, the Company included in the share capital certain reserves from revaluation for revaluations made before December 31st 2001. In order to prepare these financial statements according to EU IFRS, such increases were not recognized, because adjustments to hyperinflation for fixed assets were annually recognized in the statement of comprehensive income by December 31st 2003. Therefore, in these financial statements, the Company recorded only the share capital from cash or in-kind contribution, adjusted to inflation from the date of the initial contribution on December 31st 2003 and the increase in the share capital that took place after January 1st 2004 was recognized in nominal terms.

15. OTHER RESERVES, LEGAL RESERVES AND RETAINED EARNINGS

Other reserves

Before the adoption of IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.8 and 5.2) was included in equity as "Reserve of the public domain" at the value of the respective assets restated depending on inflation until January 1st 2004. It was recalled "Other reserves" upon adoption of IFRIC 12 (Note 3.5), to reflect the change in the statute of related assets.

Legal reserve

In accordance with the Romanian legislation and the Company's Articles of Incorporation it must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for distribution on December 31st 2013, amounts to RON 23,547,688 (December 31st 2012: RON 23,547,688). The legal reserve is included in the "Retained earnings" in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

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

Dividend distribution

In the year ending on December 31st 2013, the Company declared and distributed a dividend per share worth RON 21.29/unit, related to the profit of the previous year (2012: RON 29.76 per share). Total dividends declared from the profit of 2012 are RON 250,665,139 (dividends declared from the profit of 2011: RON 350,389,597).

At the General Meeting of Shareholders set for April 28th 2014, the profit distribution from the financial year ending on December 31st 2013 is to be approved.

<u>Destination</u>	<u>Financial year ending on 31 December 2013</u>	<u>Financial year ending on 31 December 2012 (carried forward)</u>
Net profit to be distributed:	334,491,415	329,305,243
Distribution to:		
- other reserves	-	(34,187,049)
- dividends	-	(250,665,139)
- covering accounting losses from previous years	-	(44,453,055)
Retained earnings	334,491,415	-

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

16. LONG-TERM BORROWINGS

The long-term tranche of long-term borrowings

	<u>Currency</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
BRD Groupe Societe Generale ("BRD")	RON	<u>24,000,000</u>	<u>48,000,000</u>
		<u>24,000,000</u>	<u>48,000,000</u>

The current tranche of long-term borrowings

	<u>Currency</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
BRD	RON	<u>24,000,000</u>	<u>24,000,000</u>
		<u>24,000,000</u>	<u>24,000,000</u>

Long-term borrowings are described below:

BRD GSG

The borrowing was made on December 16th 2010 to finance the investment program of the Company and has a ROBOR interest at three months + 0.5%. The total value is RON 120,000,000. Reimbursement shall be made for a period of 5 years in quarterly installments, the final payment being set for December 31st 2015.

The maturity of the borrowing from BRD is presented below:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Within 1 year	24,000,000	24,000,000
Between 1 and 2 years	24,000,000	24,000,000
Between 2 and 5 years	-	<u>24,000,000</u>
	<u>48,000,000</u>	<u>72,000,000</u>

The borrowing from BRD G.S.G. is secured by receivables from GDF Suez Energy Romania SA and Azomures SA.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

Overdraft from BRD GSG

The agreement on the overdraft from BRD was concluded in 2004 for a ceiling of RON 20,000,000. Subsequently, it was extended until August 29th 2014 and the ceiling was increased to RON 100,000,000.

This facility is guaranteed, as the long-term borrowing, with a lien on receivables from contracts concluded with GDF Suez Energy Romania SA and Azomures SA.

The value of guarantees established through receivables at GDF Suez Energy Romania SA on December 31st 2013 was RON 61,107,924 (RON 56,998,937 on December 31st 2012), respectively the guarantees established through receivables at Azomures SA on December 31st 2013 of RON 8,287,132 (RON 6,940,785 on December 31st 2012).

The balance of the overdraft is zero on December 31st 2013 (zero on December 31st 2012). The interest rate charged in the past 2 years was ROBOR at one year + 0.7% per year.

The book value of short-term borrowings approximate their fair value.

	<u>31 December 2013</u>	<u>31 December 2012</u>
Current portion of long-term borrowings	24,000,000	24,000,000

The effective interest rate

Depending on the loan category, the effective interest rate can be analyzed as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
	(%)	(%)
Long-term borrowings in USD	-	10.92
Long-term borrowings in RON	5.48	6.10

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

Fair value

Book values and fair values of long-term borrowings are the following:

	Book values on 31 December		Fair values on 31 December	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
BRD GSG	48,000,000	72,000,000	47,768,228	72,758,422
	<u>48,000,000</u>	<u>72,000,000</u>	<u>47,768,228</u>	<u>72,758,422</u>

The fair value is determined based on discounted future cash flows using a discount rate equal to the interest rate at which the management believes that the Company can achieve similar borrowings, at the end of the reporting period.

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

	<u>31 December 2013</u>	<u>31 December 2012</u>
Variable interest rate	<u>48,000,000</u>	<u>72,000,000</u>

The variable interest rate can be analyzed as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
6 months or less	<u>48,000,000</u>	<u>72,000,000</u>

The Company has the following undrawn facilities

	<u>31 December 2013</u>	<u>31 December 2012</u>
Facilities in RON	<u>100,000,000</u>	<u>100,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS
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17. DEFERRED INCOME

Deferred income consists of connection taxes charged to customers for their connection to the national natural gas transmission system, of assets taken over for free for connection to the network and grants. The Company uses the connection tax to achieve the connection to the national transmission system of the customer's objectives. Deferred income (presented as "income from the connection taxes") is registered as income for the period when the related assets are depreciated (Note 22).

	<u>Year ending on</u> <u>31 December 2013</u>	<u>Year ending on</u> <u>31 December 2012</u>
Initial balance	362,261,072	350,311,199
Increases	54,510,890	26,600,593
Reimbursed amounts	(29,633,634)	-
Amounts recorded in the income (Note 22)	<u>(16,957,999)</u>	<u>(14,650,720)</u>
Final balance	<u>370,180,329</u>	<u>362,261,072</u>

In 2013, the Company repaid, at the request of the European Commission, the amount of EUR 7,500,022, representing the community financial assistance for the interconnection project of the natural gas transmission systems of Romania and Hungary, on the Szeged-Arad direction.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

18. PROFIT TAX

Profit tax expense

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Expense with the profit tax - current	100,045,376	113,403,776
Deferred tax - impact of temporary differences	<u>(4,603,992)</u>	<u>(49,793,388)</u>
Profit tax expense	<u>95,441,384</u>	<u>63,610,388</u>

In 2013 and 2012, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian legislation.

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Profit before tax	<u>429,932,799</u>	<u>392,915,631</u>
Theoretical expense with the tax the statutory rate of 16% (2012: 16%)	68,789,248	62,866,501
The fiscal effect of items that are not deductible or taxable for tax purposes:		
Non-taxable income	(34,579,523)	(63,632,185)
Non-deductible expenses	<u>61,231,659</u>	<u>18,460,252</u>
Items assimilated to deductible expenses	-	<u>(27,745,351)</u>
Taxable components of equity	-	<u>73,661,171</u>
Profit tax expense	<u>95,441,384</u>	<u>63,610,388</u>
Profit tax related liability, current	<u>11,335,145</u>	<u>57,339,891</u>

With the adoption of EU IFRS as framework of statutory reporting, the cancellation of reserve depreciation from revaluation for which deduction was granted at the calculation of the taxable profit is a similar element to income and is taxed.

Depreciation of hyperinflation adjustments is a deductible expense with the adoption of EU IFRS as framework of statutory reporting.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual taxation rate of 16% on December 31st 2013 (December 31st 2012: 16%). Deferred tax payment and recoverable tax, as well as expenses with/(incomes from) deferred tax recognized in the statement of comprehensive income are attributable to the following items:

	<u>31 December 2013</u>	<u>Movement</u>	<u>31 December 2012</u>	<u>Movement</u>	<u>January 1st 2012</u>
Deferred tax payment					
Tangible and intangible assets	96,009,475	(4,333,277)	100,342,752	(44,453,055)	144,795,807
Deferred tax recoverable					
Provision for employee benefits	<u>(10,240,924)</u>	<u>(270,715)</u>	<u>(9,970,209)</u>	<u>(5,340,333)</u>	<u>(4,629,876)</u>
	<u>85,768,551</u>	<u>(4,603,992)</u>	<u>90,372,543</u>	<u>(49,793,388)</u>	<u>140,165,931</u>

Deferred income tax liability related to tangible and intangible assets is determined by the fact that: a) the fiscal value of intangible assets does not include inflation update; and b) the nature of public domain property does not represent depreciable assets from a tax perspective, regardless of how they are reflected in the accounts.

Most deferred tax variation is due to changes in the tax base, as a result of adopting EU IFRS as statutory reporting framework: for tangible assets, in 2012 the tax base is the historical cost, updated with the inflation rate, while in 2010 and 2011 tax base is the value of tangible assets (either historical cost or revalued amounts to 2003, as applicable), depreciated for the fiscal durations.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

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

	<u>31 December 2013</u>	<u>31 December 2012</u>
Deferred tax liabilities payable in more than 12 months as reported	85,768,551	90,372,543

19. TRADE AND OTHER PAYABLES

	<u>31 December 2013</u>	<u>31 December 2012</u>
Trade payables	59,920,774	80,293,647
Suppliers of fixed assets	20,549,846	24,163,963
Dividends payable	3,657,249	6,378,354
Debts to the Ministry of Economy and Trade (see below)	51,717,551	51,717,551
Debts related to royalties	45,254,429	38,915,572
Other taxes	18,570,857	13,761,024
Amounts payable to employees	13,523,126	10,300,066
VAT payable	33,460,633	25,885,958
Other debts	<u>15,499,808</u>	<u>3,952,696</u>
	<u>262,154,273</u>	<u>255,368,831</u>

In 2005, the Ministry of Economy and Trade decided to request the Company the equivalent interest for payment delays for dividends declared and unpaid left from 2000-2003. Being payment amounts to the majority shareholder at the time, these penalties are mainly an additional distribution to shareholders. The majority shareholder of the Company informed the management that the payment of penalties can be postponed until further notice, allowing the Company to use the respective amount to continue network development.

On December 31st 2013, the amount of RON 1,664,280 (December 31st 2012: RON 4,389,614) representing suppliers and other debts is expressed in foreign currency, especially in EUR and USD.

The commercial debts and other debts include balances due to related parties worth RON 0 (December 31st 2012: RON 44,693,084), as presented in Note 27.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

20. PROVISIONS FOR RISKS AND CHARGES

	<u>31 December 2013</u>	<u>31 December 2012</u>
<i>Current provision</i>		
Provision for guarantees	-	4,147,964
Provision for litigation	9,178,089	4,418,640
Provision term contract	1,490,084	-
Provision for employee participation in profits	<u>10,342,266</u>	<u>10,024,648</u>
	<u>21,010,439</u>	<u>18,591,252</u>

21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

According to the collective agreement, the Company must pay to employees upon retirement a compensatory amount equal to a certain number of gross salaries, depending on the period worked in the gas industry, working conditions etc. The present value of the provision was determined based on the Projected Unit Credit Method. Retirement benefits received by an employee were first raised by the contributions of the employer and then every benefit has been updated taking into account the rotation of employees, layoffs and the probability of survival until retirement. Number of years until retirement was calculated as the difference between retirement age and age at time of reporting. The expected average of the remaining work period was calculated based on the number of years until retirement, also taking into account the rate of layoffs, employee rotation rate and the probability of survival.

The main actuarial assumptions used for calculation at the date of December 31st 2013 were as follows:

- a) Discount rate:
 - The following values were used: long-term inflation rate 2% per year, effective long-term rate of return for government bonds 2.2% per year, forward rate 4.2% per year, non-liquidity premium for Romania 0%;
- b) The inflation rate for 2013 was 3.5%, for 2014 it is estimated at 3.2% per year, and for 2015-2026 3% per year, then following a downward trend;
- c) The growth rate of salaries - for 2013 and subsequent years was estimated at a salary growth rate of 2% above the consumer price index;
- d) The mortality rate among employees is based on the Mortality Table in Romania issued by the National Institute of Statistics of Romania.

NOTES TO THE FINANCIAL STATEMENTS
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21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

The main actuarial assumptions used for calculation at the date of December 31st 2012 were as follows:

- a) Discount rate:
 - The following values were used: long-term inflation rate 2% per year, effective long-term rate of return for government bonds 2.2% per year, forward rate 4.2% per year, non-liquidity premium for Romania 0%;
- b) The inflation rate for 2012 was 4.95%, for 2013 it is estimated at 3.5% per year, and for 2014-2026 3% per year, then following a downward trend;
- c) The growth rate of salaries - for 2012 and subsequent years was estimated at a salary growth rate of 3% above the consumer price index;
- d) The mortality rate among employees is based on the Mortality Table in Romania issued by the National Institute of Statistics of Romania.

Movement in the provision for employee benefits

January 1 st 2012	<u>28,936,726</u>
Interest cost	2,609,437
Current service cost	4,592,211
Payments from provisions during the year	-1,978,838
Actuarial loss for the period	1,630,857
Past service costs	26,523,416
December 31 st 2012	<u>62,313,809</u>
of which:	
Short term	2,976,280
Long term	59,337,529
Interest cost	5,045,534
Current service cost	1,582,869
Payments from provisions during the year	-3,705,866
Actuarial gain for the period	-1,230,568
December 31 st 2013	<u>64,005,778</u>
of which:	
Short term	4,537,400
Long term	59,468,378

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

22. OTHER INCOME

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Revenue from penalties for late payment to customers	9,464,905	9,647,241
Income from connection fees, grants and goods taken free of charge	16,957,999	14,650,720
Rental income	1,476,021	1,634,470
Income from the sale of waste materials	1,812,021	1,839,827
Income from engineering services	1,910,973	4,390,872
Other operating income	<u>6,001,048</u>	<u>5,218,988</u>
	<u>37,622,967</u>	<u>37,382,118</u>

23. OTHER OPERATING EXPENSES

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Sponsorship expenses	2,189,255	2,881,793
Utilities	7,611,604	7,019,939
Insurance premiums	666,173	1,155,014
Maintenance expenses	2,953,524	2,473,244
Security expenses	10,390,364	10,234,147
Training services	1,368,637	1,212,492
Telecommunications	4,538,550	3,919,766
Net loss on disposal of fixed assets	(19,504)	122,261
Bank charges and fees	1,020,091	923,363
Rents	1,087,017	968,375
Loss on receivables	82,840	40,638
Loss from impairment of receivables (credit)	162,506	9,354,580
Loss/(gain) on impairment of inventories	890,692	(556,033)
Research expenses	193,824	1,337,160
Marketing and protocol expenses	1,039,021	1,818,253
Penalties and fines	293,508	1,043,044
Reservation of gas storage capacity	2,325,640	1,244,440
Other	<u>20,787,206</u>	<u>14,278,667</u>
Total	<u>57,580,948</u>	<u>59,471,143</u>

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

24. NET FINANCIAL INCOMES/(EXPENSES)

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Income from foreign exchange differences	9,238,182	39,425,385
Interest income	9,562,711	15,364,229
Other financial incomes (note 10)	<u>21,920,217</u>	-
Financial incomes	40,721,110	54,789,614
Expenses from foreign exchange differences	(5,298,381)	(20,257,021)
Interest expense	(2,865,061)	(3,928,582)
Effect of discounting the provision for employee benefits	(5,045,534)	(2,609,437)
Adjustments for impairment of financial assets (note 10)	(132,591,172)	-
Other financial expenses	<u>(785,838)</u>	-
Financial expenses	<u>(146,585,986)</u>	<u>(26,795,040)</u>

25. CASH GENERATED FROM OPERATION

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u> (restated)
Profit before tax	429,932,799	394,546,488
<i>Adjustments for:</i>		
Amortization	180,880,113	164,539,650
Gain/(loss) on disposal of fixed assets	(19,504)	122,261
Provisions for risks and charges	2,419,187	5,100,602
Provisions for impairment of intangible assets	806,244	-
Revenues from connection fees, grants and goods taken free of charge	(16,957,999)	(14,650,720)
Provision for employee benefits	(2,122,997)	29,136,789
Provision for impairment of receivables	162,506	9,354,580
Provisions for impairment of financial assets	132,591,172	-
Loss/(gain) on impairment of inventories	890,692	(556,033)
Loss on receivables	82,840	40,638
Interest expense	2,865,061	3,928,582
Effect of discounting the provision for employee benefits	5,045,534	2,609,437
Interest income	(9,562,711)	(15,364,229)
Effect of exchange rate fluctuation on other items than operating	(119,287)	21,205
Other revenues	<u>(23,167,208)</u>	<u>(1,073,530)</u>
Operating profit before changes in working capital	<u>703,726,443</u>	<u>577,755,720</u>
(Increase)/decrease in trade and other receivables	(95,669,028)	10,661,745
(Increase)/decrease in inventories	882,396	7,954,346
Increase/(decrease) in trade payables and other debts	<u>26,451,260</u>	<u>(17,075,413)</u>
Cash generated from operations	<u>635,391,071</u>	<u>579,296,398</u>

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

26. OTHER EMPLOYEE BENEFITS

In accordance with the collective labor agreement, in 2012 and 2013 the employees are entitled to receive a material aid equal to the equivalent of 6,500 cu m of gas per year per employee (calculated at the average domestic monthly price per cubic meter). The total value of benefits granted to employees in 2013 is RON 54,912,669 (2012: 51,479,308 lei). The average price in 2013 for 1000 cu m is RON 1,369.69 (nominal - RON 129.06/MWh). The average price in 2012 for 1000 cu m is RON 1,257.63 (nominal - RON 119.34/MWh).

27. TRANSACTIONS WITH RELATED PARTIES

The parties are considered related if one of the parties has the capacity to control the other party, to exercise a significant influence on the other party in making financial or operational decisions, if it is under common control with another party, if there is a joint venture within which the entity is associated or is the member of the management, as described in IAS 24 "Related parties disclosures". In the evaluation of each possible relation with related parties, the focus is put on the essence of this relation and not necessarily on its legal form.

The related parties may conclude transactions that the non-related parties cannot conclude, and in the case of transactions between related parties the terms, conditions and values will not be the same as for the non-related parties.

In the financial years ending on December 31st 2013 and December 31st 2012 the following transactions with related parties were made and the following balances were receivable/payable from related parties on the respective dates:

i) Income from related parties - services provided (excluding VAT)

	<u>Relation</u>	<u>2013</u>	<u>2012</u>
SNGN Romgaz	Entity under joint control	1,342,426	1,315,072
Termoelectrica	Entity under joint control	173,128	2,203,521
Electrocentrale Deva SA	Entity under joint control	1,689,790	6,856,492
Electrocentrale București SA	Entity under joint control	55,623,679	126,439,326
Electrocentrale Galați SA	Entity under joint control	<u>7,327,346</u>	<u>20,486,336</u>
		<u>66,156,369</u>	<u>157,300,747</u>

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	<u>Relation</u>	<u>2013</u>	<u>2012</u>
SNGN Romgaz	Entity under joint control	53,439	164,884
Termoelectrica	Entity under joint control	787	-
Electrocentrale București SA	Entity under joint control	-	3,947,503
Electrocentrale Galați SA	Entity under joint control	<u>24,612</u>	<u>28,696</u>
		<u>78,838</u>	<u>4,141,083</u>

iii) Income from related parties

	<u>Relation</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
SNGN Romgaz	Entity under joint control	-	16,772
Termoelectrica (net of provision)	Entity under joint control	-	207,954
Electrocentrale Deva SA	Entity under joint control	-	1,756,013
Electrocentrale București SA	Entity under joint control	-	56,955,263
Electrocentrale Galați SA	Entity under joint control	-	<u>4,867,690</u>
		-	<u>63,803,692</u>

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

iv) Purchases of gas from related parties (excluding VAT)

	<u>Relation</u>	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
SNGN Romgaz	Entity under joint control	<u>41,631,751</u>	<u>118,925,375</u>

v) Purchases of services from related parties (other services - excluding VAT)

	<u>Relation</u>	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Termoelectrica	Entity under joint control	1,041	6,952
SNGN Romgaz	Entity under joint control	357,974	1,467,194
Electrocentrale Deva SA	Entity under joint control	-	10,645
Electrocentrale Bucharest SA	Entity under joint control	<u>5,385</u>	<u>11,920</u>
		<u>364,400</u>	<u>1,496,711</u>

vi) Payables to related parties

	<u>Relation</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
SNGN Romgaz	Entity under joint control	=	<u>44,505,387</u>

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

vii) Payables to related parties (other services)

	<u>Relation</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
SNGN Romgaz	Entity under joint control	-	127,464
Termoelectrica Bucharest	Entity under joint control	-	42,453
Electrocentrale Bucharest SA	Entity under joint control	-	1,380
Electrocentrale Deva SA	Entity under joint control	-	16,400
		<u>-</u>	<u>187,697</u>

viii) Compensation to management members

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Salaries paid to management members	5,621,165	5,130,150
Corporate social contributions	<u>1,564,370</u>	<u>1,373,040</u>
	<u>7,185,535</u>	<u>6,503,190</u>

In the financial years ending on December 31st 2013 and December 31st 2012, no advance payments and loans were granted to the Company's directors and management, except advance payments from salaries and those for work travel, and they don't owe any amount to the Company at the end of the year coming from such advance payments.

The Company has no contractual obligations related to pensions to the former managers and directors of the Company.

ix) Loan to a related party

	<u>Year ending on 31 December 2013</u>	<u>Year ending on 31 December 2012</u>
Loan to Resial SA	1,770,346	1,770,346
Minus the provision for loan impairment	<u>(1,770,346)</u>	<u>(1,770,346)</u>
	<u>-</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

28. EARNINGS PER SHARE

The Company shares are listed on the first category of the Bucharest Stock Exchange.

Basic earnings per share are calculated by dividing the profit attributable to the Company's equity holders to the average number of ordinary shares existing during the year.

	<u>Year ending on</u> <u>31 December 2013</u>	<u>Year ending on</u> <u>31 December 2012</u> (restated)
Profit attributable to the Company's equity holders	334,491,415	330,936,100
Weighted average of the number of shares	11,773,844	11,773,844
Basic and diluted earnings per share (RON per share)	28.41	28.11

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 2.46% of the receivables were settled by transactions that haven't involved cash outflows during the year ending on December 31st 2013 (2012: 0.14%). Transactions mainly represent sales of products and services in exchange for raw materials and services or offsets with customers and suppliers within the operating cycle.

Barter transactions

No barter transactions were made in 2013 and 2012

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS

i) Commitments

The Service Concession Agreement (S.C.A. - Note 8) specifies that, at the end of the agreement, NAMR is entitled to receive back, for free, all goods of public property existing when the agreement was signed and all investments made into the national transmission system, in accordance with the investment program stipulated in the service concession agreement. The Company also has other obligations related to the concession agreement, which are described in Note 8.

The minimum investment program for the period of 2012-2016 was approved under Government Decision no. 919/2012.

ii) Taxation

The taxation system in Romania is in a phase of consolidation and harmonization with the European legislation. However, there are still various interpretations of the legislation in force. In certain situations, the tax authorities may treat differently certain aspects, proceeding to the calculation of additional taxes and fees and of the related interest and penalties for late payment (calculated at a rate of 0.04% per day in 2013, as well as in 2012). In Romania, the tax year remains open for fiscal verification for 5 years. The Company's Management believes that fiscal obligations included in these financial statements are properly presented.

In accordance with the Order of the Ministry of Public Finance no. 881/2012, Transgaz prepares statutory IFRS financial statements as of 2012, these statements also being the base for determining the fiscal obligations of the Company. Because tax rules for taxpayers that apply the accounting regulations according to IFRS are new, there is a risk that a subsequent fiscal control could have another interpretation than the Company on how to determine the tax base.

iii) Insurance policies

The Company does not have insurance policies related to operations, complaints on products, or for the public debt. The company has insurance policies for buildings and mandatory civil liability policies for the car fleet. Moreover, the company has contracted professional liability insurance services for 58 managers (60 managers in 2012).

iv) Environmental aspects

Environmental regulations are under development in Romania and the Company did not record any obligation on December 31st 2013 and December 31st 2012 related to anticipated expenses that include legal and consulting fees, analysis of locations, preparing and implementing recovery measures related to environmental protection. The management believes there are no significant obligations related to environmental aspects.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

v) Lawsuits and other actions

During the normal activity of the Company, there have been complaints against it. The company has pending disputes for the lack of use of lands occupied with NTS objectives. Based on its own estimates and internal and external consulting, the Company's management believes there will be no material losses exceeding the provisions established in these financial statements is not aware of circumstances that give rise to potentially significant obligations in this regard.

In 2012, the Company received a request for data and information within the investigation of the Competition Council opened under Order 759 of September 29th 2011 and extended by Order 836 of November 1st 2011. The Company has provided the requested data and information and did not receive other communications in 2013 and until the date of these financial statements. Based on its own estimates, the Company's management believes there are no circumstances to give rise to significant potential obligations in this regard.

vi) Government policies in the gas sector in Romania

ANRE is an autonomous public institution and sets tariffs for the natural gas transmission activity charged by the Company. It is likely that the Agency decides the implementation of changes of the government strategies in the gas sector, determining changes in the tariffs approved for the Company and, thus, having a significant impact on the Company's incomes. At the same time, the Romanian government could decide to change the royalty applied to the Company for using the assets part of the public domain according to SCA. (Note 8).

Currently, the effects cannot be determined, if they exist, of the future government policies in the gas sector in Romania on the Company's asset and liability.

There are various interpretations of the legislation in force. In certain situations, ANRE may treat differently certain aspects, proceeding to the calculation of additional tariffs and of delay penalties. The Company's management believes that its obligations to ANRE are properly presented in these financial statements.

vii) The political and economic situation in Ukraine

In February - March 2014 the economic and political situation in Ukraine witnessed an accentuated deterioration. The Company has contracts for gas transmission from Russia to Bulgaria, Turkey, Greece and other countries. Also, Romania annually imports 20-30% of the necessary transported gas through the Company's pipelines. It's likely that Gazprom Export stops the supplies of gas transported domestically or internationally through Romania or that Ukraine prevents the transit of gas supplied by Gazprom Export on its territory. The Company cannot estimate at this point the impact of such events on its activity of domestic and international transmission.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

31. RESTATEMENTS RELATED TO THE PREVIOUS PERIODS

i. Restatements imposed by the retroactive application of changes of the financial reporting standards

Application of IAS 19 revised

In 2012, as a result of applying the reviewed IAS 19, the amount of RON 1,630,857 was reclassified from the net profit related to the period as retained earnings. Thus, the net profit related to the period was diminished by the amount of RON 1,630,857 and the other items of the comprehensive income increased by the same amount.

ii. Other restatements related to the previous periods

Profit sharing

The Company recognizes an obligation and expense for bonuses and profit sharing, based on a formula taking into account the profit attributable to the Company's shareholders, after certain adjustments. The Company recognizes an obligation where it is required under contract or where there is a past practice that has created an implicit obligation.

Before December 31st 2013, the Company recognized at the end of the year the obligation and expense related to the employee participation in profits. The obligation was classified as short-term debt, and the expense was classified as an expense on wages, salaries and other expenses of salary nature.

In 2013, the Company analyzed the degree of uncertainty of the debt on the personnel participation in profits and considered that it had to recognized at the end of the year a provision for risks and charges, following that, after the approval of profit redistribution, to reverse the provision and recognize the obligation and the salary expense related to the personnel participation in profits.

These financial statements include the following restatements:

	<u>2012</u>
Increase in Provisions for risks and charges	10,024,648
Decrease in Trade and other payables	(10,024,648)

	<u>2012</u>
Increase in Expenditure with the provision for risks and charges	337,498
Decrease in Wages, salaries and other salary related	(337,498)

Provision for employee benefits

Until December 31st 2012, the Company has classified the provision for employee benefits entirely over a long term. These financial statements include the reclassification of the current part of the provision for employee benefits, as follows:

	<u>2012</u>
Increase in provision for employee benefits (short term)	2.976.280
(Decrease) in provision for employee benefits (long term)	(2.976.280)

NOTES TO THE FINANCIAL STATEMENTS
(expressed in RON, unless otherwise stated)

32. SUBSEQUENT EVENTS

Legislative issues

New regulations affecting the activity of the Company, in 2014:

- *Government Emergency Ordinance no. 102/November 14th 2013 on the amendment and supplementation of Law no. 571/2003 on the Fiscal Code and the regulation of certain financial and fiscal measures*, with applicability from January 1st 2014, which introduced the tax on constructions in Transgaz patrimony on December 31st of the previous year at a rate of 1.5% per year; the value of reconstruction, modernization, consolidation, change or expansion works for constructions found or which will be transferred in the state property or of administrative and territorial units is exempt from taxation.
- *ANRE Order no. 3/January 22nd 2014 on the approval of certification of the National Natural Gas Transmission Company "Transgaz" – S.A. Mediaș as transmission and system operator of the National Natural Gas Transmission System*, which approved that the National Natural Gas Transmission Company "Transgaz" - S.A. Mediaș be organized and operate according the "independent system operator" model;
- *Government Emergency Ordinance no. 6/February 12th 2014 on exercising the rights and fulfilling the obligations arising from the state's shareholder quality in the National Power Transmission Company "Transelectrica" – S.A. and in the National Natural Gas Transmission Company "Transgaz" – S.A. Mediaș and for the amendment of certain normative acts*, which stipulates that the exercise of rights and fulfillment of obligations arising from the Romanian state's quality of shareholder in the National Natural Gas Transmission Company "Transgaz" - S.A. Mediaș shall be achieved by the Government, through the Secretariat General of the Government, in consultation of the Chancellery of the Prime Minister.

Nabucco project

The amounts to be obtained from NIC liquidation are subject to a Reconciliation Agreement under negotiation between NIC shareholders.

Other events

As described in Note 30 vii), in February - March 2014 the economic and political situation in Ukraine witnessed an accentuated deterioration.

Chairman of the Board,
Ion Sterian

General Manager
Petru Ion Vaduva

Director of the Economic Department
Marius Lupean