

THE NATIONAL NATURAL GAS TRANSMISSION COMPANY TRANSGAZ SA

# REPORT ISSUED BY THE BOARD OF ADMINISTRATION

2014



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## MESSAGE OF THE CHAIRMAN OF THE BOARD OF ADMINISTRATION

Dear shareholders,  
Dear investors,

In April 2014, the activity of natural gas transmission, a strategic activity for the national economy, has celebrated a century of existence both in Romania and in Europe, which is why we express our appreciation and consideration to all those who contributed to the development and prestige of this activity.

The National Natural Gas Transmission Company TRANSGAZ is the technical operator of the National Natural Gas Transmission System and ensures the performance in terms of efficiency, transparency, safety, non-discriminatory access and competitiveness of the national strategy established for domestic and international transmission, natural gas dispatching, research and design in the field of natural gas transmission, in compliance with the national and European legislation and standards of quality, performance, environment and sustainable development.

TRANSGAZ is a joint stock company, listed at the Bucharest Stock Exchange and it is administered by the Board of Directors using a unitary system. In compliance with the current legislation on corporate governance, the Board of Directors was appointed by the General Meeting of Shareholders by cumulative vote on 10.07.2013, and it ensures the administration of the company in line with the **Management plan of the company between 2013 and 2017**, a plan unanimously approved by the company's shareholders by the Decision No. 9/23.09.2013 of the General Ordinary Assembly of the Shareholders.

In compliance with the legal provisions, the Board of Directors has delegated the management of the company to the general manager, Mr **Petru Ion Vaduva** who, together with the executive management, ensures through the management plan, the operationalization of strategic directions approved by the Management Plan of the company.

The management plan of SNTGN Transgaz SA Medias is governed by a responsible, professional and ethical attitude in relation to all stakeholders (shareholders, employees, partners, community, state authorities and institutions, media, etc.) and reflects the administrators' vision on strategic redefining and company streamlining directions in line with the safety and energy security requirements of the European energy policy, with the competitiveness and sustainable development as well as with the future needs and opportunities of Romania to become a major player on the European natural gas market.

Making the company's importance more responsible both as an engine of the national economy and as a vector of the country's economic growth, through its role in the development of the energy sector and transformation of Romania into a European energy power, the company administrators are currently on the verge of starting one of the largest and most important development programs of natural gas transmission infrastructure of Romania in the last 20 years, having investment projects **estimated at EUR 1.5 billion**.

In the context of profiling two major new sources of natural gas supply, **the natural gases from the Caspian Sea region and those recently discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Transmission System of natural gases over the next 10 years**, plan approved by the NREA by the Decision no. 2819/17.12.2014 are strategic investments in the energy field for the development of the natural gas transmission infrastructure of Romania and its compliance with the requirements of European legislation in the field.

The proposed investments will result in securing an appropriate degree of interconnectivity with neighbouring countries; creating several natural gas transmission routes at a regional level for natural gas transmission from various new sources of supply; creating the necessary infrastructure for takeover and transmission of natural gases from offshore perimeters in the Black Sea in order to capitalize them on the Romanian market and other markets in the region; extending the natural gas transmission infrastructure in order to improve natural gas supply in deficient areas; creating an integrated single market in the European Union.

Given the complex and extensive investment program, Transgaz envisages, in addition to its own sources of funding, the use of additional external funding under advantageous conditions. Thus, the company has a professional department for accessing European funds and for International Relations, having the role of accessing European funds and of developing international cooperation relations. At the same time, Transgaz developed a Financing Committee having the role of attracting funding from international financial institutions, from other banking and financial institutions as well as from the capital market by issuing bonds.

The strategic vision of those who today bear the responsibility of this company's destiny focuses on professional and efficient management, on being able to face challenges and constraints, on the development and modernization of the national transmission infrastructure of natural gases, on competitiveness and capitalizing on existing and future opportunities, so as TRANSGAZ shall become a recognized carrier of natural gases on the international market of natural gases, a leader on the energy market in the region, an important link in the national and European energy chain.

Pursuing our proposed objectives on operational effectiveness, performance optimization and sustainable development of society, and observing the principles of good corporate governance, the company administrators shall fulfil their mandate responsibly, efficiently, transparently and professionally towards all stakeholders.

Yours sincerely,

**ION STERIAN**

**Chairman of the Board of Administration**

## 1. ISSUER IDENTIFICATION DATA

### 1.1 Report and issuer identification data

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

**For the year concluded on:** December 31, 2014

**Report date:** March 23, 2015

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

**Registered office:** Mediaș, Constantin I. Motaș square, no.1, zip code: 551130

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

**VAT Number:** RO13068733

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

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

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

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

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

### 1.2 Main activities

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

### Mission

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

### 1.3 Structure

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

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

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

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

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

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

- **Transgaz registered office:** Mediaş, str. Piața C. I. Motaş no. 1, Sibiu County, zip code 551130;
- **Exploitation and Maintenance Department:** Mediaş, str. George Enescu no. 11, Sibiu County, zip code 551018;
- **Design and Research Department:** Mediaş, str. Unirii no. 6, Sibiu County, zip code 550173;
- **Bucharest Gas Market Operation Division:** Bucharest, Calea Dorobanți no. 30, District 1, zip code 010573;
- **Bucharest Agency:** Romania, Bucharest, 55, Primaverii Bvd.
- **European Funds and International Cooperation Division:** Romania, Bucharest Calea Victoriei, no.155, District 1, zip code 010073.

Transgaz owns 9 regional operating centres and a branch:

- **Arad Regional Operating Centre**, str. Poetului no. 56, Arad, Arad County, zip code 310369;

- **Bacău Regional Operating Centre**, str. George Bacovia no. 63, Bacău, Bacău County, zip code 600238;
- **Brăila Regional Operating Centre**, str. Ion Ghica no. 5, Brăila, Brăila County, zip code 810089;
- **Braşov Regional Operating Centre**, str. Grigore Ureche no. 12A, Braşov, Braşov County, zip code 500449;
- **Bucharest Regional Operating Centre**, str. Lacul Ursului no. 24, 6<sup>th</sup> District, Bucharest, zip code 060594;
- **Cluj Regional Operating Centre**, str. Crişului no. 12, Cluj-Napoca, Cluj County, zip code 400597;
- **Craiova Regional Operating Centre**, str. Arhitect Ioan Mincu no. 33, Craiova, Dolj County, zip code 200011;
- **Mediaş Regional Operating Centre**, str. George Coşbuc no. 29, Mediaş, Sibiu County, zip code 551027;
- **Constanţa Regional Operating Centre**, str. Caraiman no. 2 bis, Constanţa, Constanţa County, zip code 900117;
- **Mediaş Branch**, Sos. Sibiului no. 59, Mediaş, Sibiu County.

#### 1.4 Shareholders

Given the fact that in December, 2013 the entire share package held by Fondul Proprietatea was sold, representing 14.98% of the share capital of Transgaz, **the synthetic shareholding structure of Transgaz on December 31, 2013** changed and became as follows:

Shareholder's name	Number of shares	Percentage
Romanian State by the Ministry of Public Finance	6,888,840	58.5097%
Other shareholders - (natural and legal persons)	4,885,004	41.4903%
<b>Total</b>	<b>11,773,844</b>	<b>100%</b>

*Table 1 - Shareholding Structure of Transgaz on 31.12.2013*

Following the implementation of the Government Emergency Ordinance provisions no. 6/2014, in February 2014, it was registered the transfer of a number of 6,888,840 shares, representing 58.5097% of the share capital, from the account of the Romanian State through the Ministry of Finance on behalf of the Romanian State through the General Secretariat of the Government.

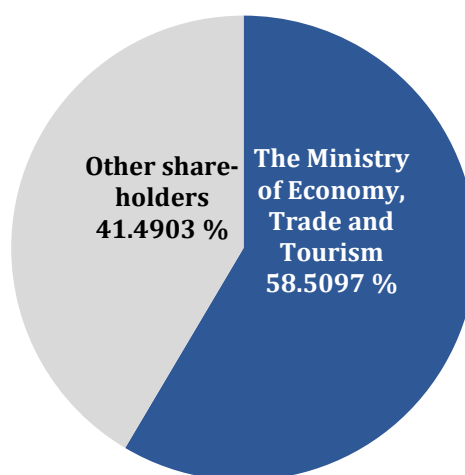
According to GEO no. 86/17.12.2014 on the establishment of measures for the reorganization of the central public administration and for the amendment of regulations, the exercise of rights and the fulfilment of obligations arising from the Romanian state's capacity as shareholder in Transgaz is ensured by the Ministry of Economy, Trade and Tourism.

The transfer of shares from the account of the General Secretariat of the Government to the account of the Ministry of Economy, Trade and Tourism was registered with the SC Depozitarul Central SA, on 20.02.2015.

As a result of the transfer, **the synthetic shareholding structure of Transgaz is as follows:**

Shareholder's name	Number of shares	Percentage
The Ministry of Economy, Trade and Tourism	6,888,840	58.5097%
Free float - Other shareholders (natural and legal persons)	4,885,004	41.4903%
<b>Total</b>	<b>11,773,844</b>	<b>100%</b>

*Table 2 - Shareholding Structure of Transgaz on 31.12.2014*



*Chart 1- Shareholding Structure on 31.12.2014*

Thus, in the end of 2014 the shareholding structure of Transgaz was: The Romanian state represented by the Ministry of Economy, Trade and Tourism -6,888,840 shares, free float – 4,885,004 shares out of which natural persons – 997,625 shares (8.4732%) and legal persons – 3,887,379 shares (33,0171%).

The number of shareholders of Transgaz registered with SC Depozitarul Central S.A. at the end of 2014 was 8,226, dropping by 3,2% (270 shareholders) compared to the beginning of the year, when there were 8,496 registered shareholders.

The share capital of Transgaz on December 31, 2014 is of RON 117,738,440 and is divided into 11,773,844 registered shares, each share having a face value of RON 10.

Transgaz did not carry out transactions with its own shares and, consequently, at the end of 2014 the company does not hold any of its own shares.



## 2. EXECUTIVE SUMMARY

### 2.1 Indicators of the operational activity

For the company to become a distinguished transmission operator on the international gas market, a leader on the energy market in the region with a modern gas transmission system, integrated at the European level, the management of the company embraced starting with May 2013 and during the entire 2014, **an ambitious organizational technical-operational and economico-financial program which had as a direct result significant increases in efficiency and profitability.**

Out of the **major organizational intervention measures** taken by the administrators and the management of the company the following are to be distinguished:

#### ***Maintain under permanent control the increase of the company's costs***

This measure was undertaken mainly in the context of the natural gas prices liberalization, when without such a measure, the tariffs of the company could have increased very much, and could have caused significant prejudices to the economy and to the company.

#### ***Maintain a minimum tariff by the decrease of costs and a strict control of the procurements***

The control of the two main components of the cost and tariff structure of the company:

***The technological consumption and rehabilitation and maintenance works***, had as a result **economies of over 150 million lei, as compared with 2012, with the effect of maintaining the transmission tariffs within acceptable limits, although gas consumption decreased by over 10% year by year, in the last 2 years.**

The main economy element was the technological consumption, which has decreased significantly from 1.6% in 2012 to 0.74% in 2014. **This decrease resulted in economies of over 100 million lei**, if we take into account the fact that the gas price was doubled in this period.

The second main economy element was the control of the exploitation costs. Thus, in compliance with the safety measures imposed by the legislation and NERA, the administrators, eliminated many of the non-essential costs from these programs. **At the same time, the transparency of the procurement processes had as a result economies of over 15 million lei as compared to the budget.**

The transparency and professionalization of the procurement processes remain two of the most important achievements of the company, which effected **over 95% of the tenders by electronic tenders registering economies of over 25% as compared to the start up price and the appeals of the participants won by the company.**

***The strategic repositioning of the company in the context of the transmission of the potential natural gas resources in the Black Sea and the increase of the energy security – essential component of the national security.***

In this context, Transgaz signed with the Exxon/Petrom consortium a complex cooperation agreement in which the company undertook the design and development of an investment program of approximately 1.5 billion euro in less than four years.

The confirmation of the capacity of the company to design and finance this complex development program was and will be essential in order to ensure the confidence of the foreign investors in the Black sea region, investors who will bring over 5 billion dollars for these developments.

The fulfillment of these requirements was important as the developments were competing with concepts which are extremely dangerous for Romania, from a strategic point of view, as South Stream. Fortunately, the company has successfully fulfilled all the requirements and did not open a breach in the stability of the energy development strategy of the country.

At this moment, the company proved that it can fulfill all the obligations undertaken towards the foreign partners and are waiting for a confirmation of the resources in order to initiate the development projects. These projects are in final design stages and the requests for European funding were submitted, anticipating thus the opening of the first call in June 2015.

***The judicious administration of the investment process, an essential component for the control of costs and transmission tariffs.***

Awaiting the confirmation of the European funding and contractual commitment of the producers in the Black Sea, **the year 2014 was a year characterized by investment expenses control in order to avoid the unsustainable increase of tariffs and in order to achieve the necessary economy for the programmed investment once we either receive European grants dedicated to the future development or we have a firm commitment of the producers in the Black Sea.**

Within this context, the total investment expenses was 151.776 thousand lei, that is 51,9 million lei lower than the level registered in 2013. We would like to mention that the achievement of some planned investment objectives depend upon objective factors outside the company, essential for the initiation of these large scale investments such as:

- *The complex legislation based on which the construction permits are obtained (legislation that is currently under amendment and harmonization with the European laws) and*
- *Delay in accessing European funds because the grant awarding methodology initiated by EU has changed in the beginning of 2014, thus the methodology complicated and delayed the application processes by almost 10 months.*

One aspect that has to be underlined is that, in order to protect the consumers in our country, Transgaz has as a first responsibility the judicious development of the NTS without affecting in a negative way the tariffs for the company's clients. In this context, the investments of the company in 2014 were focused exclusively upon the projects which are essential for the security of the system. The other projects for the strategic development are in final development stages waiting for their validation either by accessing European Funds either by the contractual confirmation of new gas sources.

Without these pre-conditions any development must be undertaken with utmost precaution considering the potential negative effects upon the end consumers. We are confident that, by the clarification of the new financing methodologies of the EU we will have the opportunity to access soon the necessary funds for the initiation of the interconnection projects, defined as a priority by the European Commission in the EU development strategy. At the same time, the official and contractual confirmation of the needs of the gas producers in the Black Sea will justify the initiation of the large scale projects undertaken by the company, projects which are already in different finalization stages.

***Organizational redesigning of the processes, systems and activities, tasks and responsibilities of the personnel***

***Strategic planning of the annual programs related to the activity and the monitoring of the monthly execution of the budgetary commitment***

***Upgrading the company – Monitoring the implementation of the SCADA project***

***Aligning the company to the requirements of the national and European regulations incidental to the natural gas transmission activity***

***Reinforcement of the management control of the material, financial and informational resources ;***

***Enhance the international cooperation activities and the relations with the financial banking international and european institutions, rating agencies***

***Optimisation of the institutional relations of the company and of the organizational and corporate climate***

Quantified, the effects of these organizational intervention measures undertaken by the professional management of the company , lie mainly in the end of 2014, as compared with 2013, in significant increases of the economic efficiency and the company's profitability as follows:

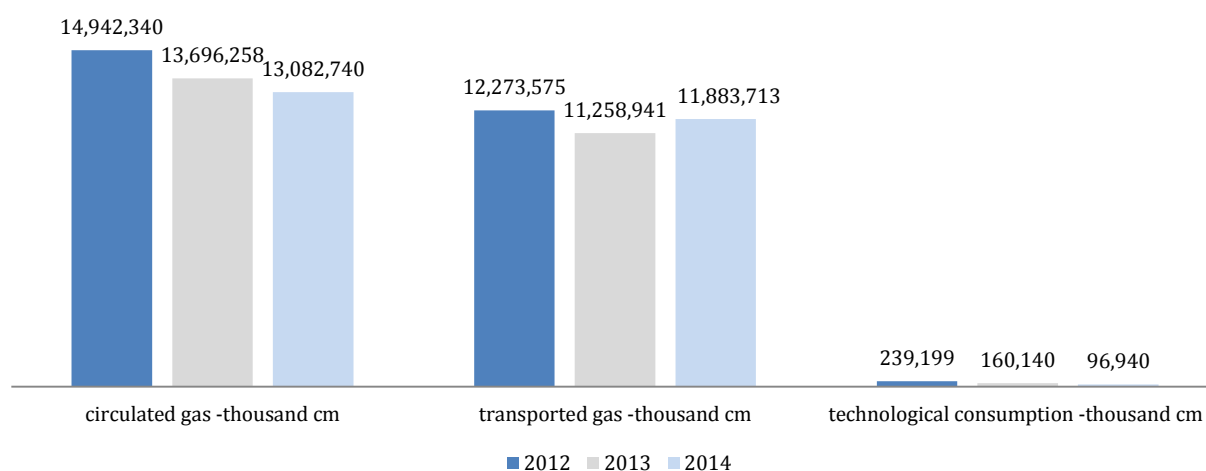
- **Increase of total revenues by 8%**, that is 132 mill.lei, from 1.557 mill.lei to 1.689 mill.lei;
- **Increase of turnover by approximately 9%**, that is 133 mill.lei, from 1.485 mill.lei to 1.618 mill.lei;
- **Reduction by 5% of the total expenses**, that is by 53 mill.lei, from 1.131 mill.lei to 1.078 mill.lei;
- **Reduction by 4% of the operational expenses** with the consumption and technological loss in the transmission, meaning economies of 3,4 mill.lei;

- **Savings of 9 mill.lei to the expenses related to works and services executed by third parties;**
- **Reduction by 90% of the financial expenses**, that is from 149 mill.lei to 14 mill.lei;
- **Gross profit higher by 43%**, that is by 184 mil.lei, from 427 mill.lei to 611 mill.lei;
- **Net profit higher by 52%**, that is by 172 mill.lei, from 331 mill.lei to 503 mill.lei.

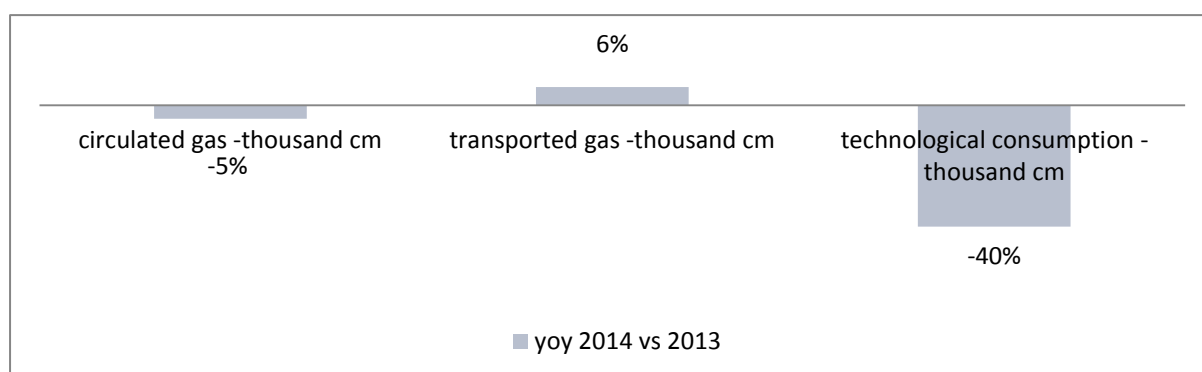
The evolution of the natural gas quantities circulated and transmitted through the National Natural Gas Transmission System (NTS), as well as at the technological consumption during 2014 compared to 2013 and 2012, is as follows:

Indicator	MU	2012	2013	2014	+/- Thousand cm	+/- %
					<b>2014/2013</b>	
Circulated gas	thousand cm	14.942.340	13.696.258	13.082.740	- 613.518	-4.47%
Transported gas	thousand cm	12.273.575	11.258.941	11.883.713	+624.772	+5.55%
Technological consumption	thousand cm	239.199	160.140	96.940	-63.200	- 39.46%
Share tech. consumption/circulated gas	%	1,60%	1,17%	0,74%		- 36.75%

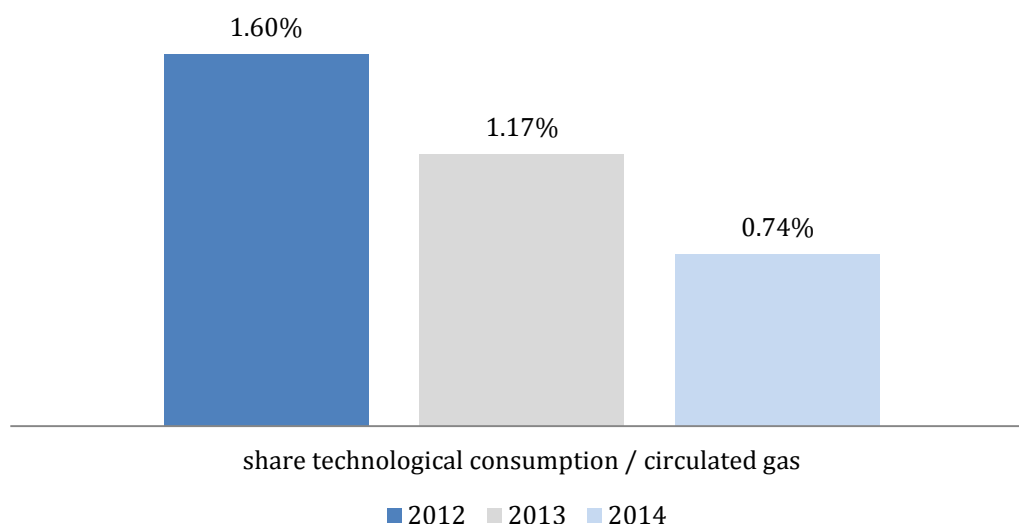
*Table 3 - Evolution of the quantities of circulated and transmitted natural gas and of the technological consumption during 2014 versus 2013*



*Chart 2 - Quantities of circulated and transmitted natural gas and of the technological consumption for 2012-2014*



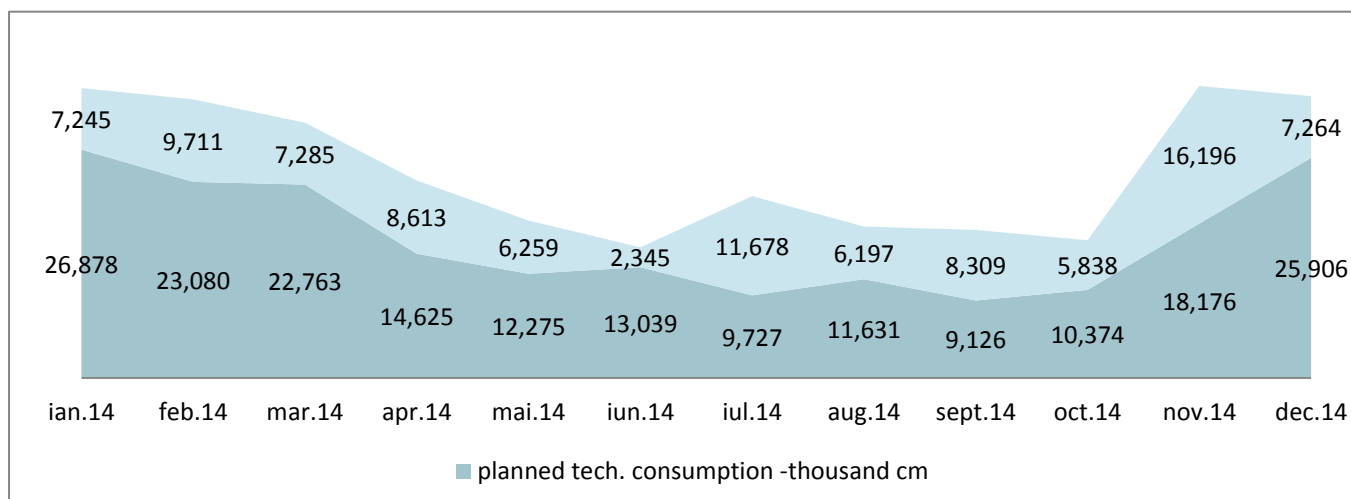
**Chart 3 - The evolution of the quantities of circulated and transmitted natural gas and of the technological consumption for 2014 vs 2013**



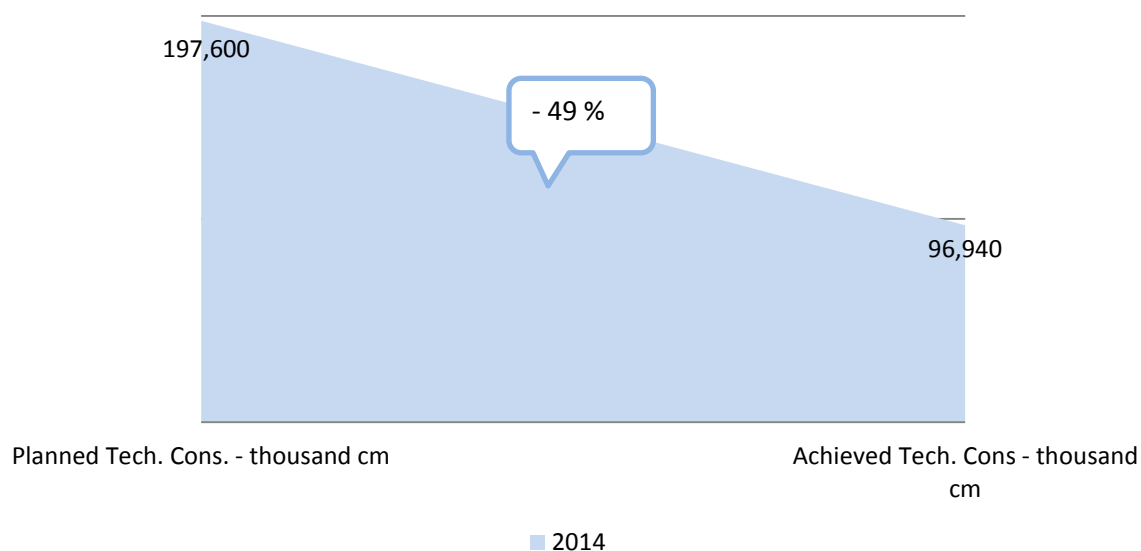
**Chart 4 - The evolution of the ratio of technological consumption in the total of circulated gas for 2012- 2014**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	TOTAL 2014
<b>Planned tech. cons thousand cm</b>	26,878	23,080	22,763	14,625	12,275	13,039	9,727	11,631	9,126	10,374	18,176	25,906	<b>197,600</b>
<b>Achieved tech. cons. thousand cm</b>	7,245	9,711	7,285	8,613	6,259	2,345	11,678	6,197	8,309	5,838	16,196	7,264	<b>96,940</b>

**Table no. 4 - technological consumption gas amounts achieved vs. planned in 2014**



**Chart 5 - The evolution of technological consumption achieved vs. planned in 2014**



**Chart 6 - Level of decreasing the technological consumption achieved vs. planned in 2014**

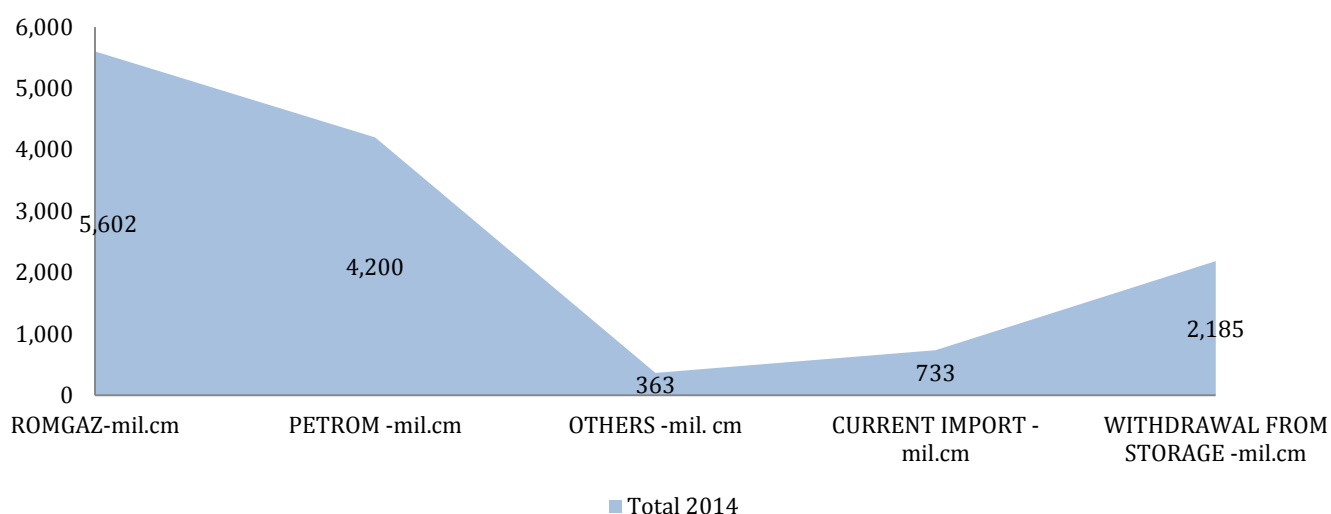
The accelerated decrease of the technological consumption and of the technological losses against the planned level was due to the management involvement in the controlled sizing of the natural gas purchasing for the technological consumption and for the implementing of a **Program of very important measures for the reduction of the measurable and immeasurable consumptions.**

Thus, as we can see, in 2014, compared to the same period of the previous year, the evolution of the technological consumption on NTS has shown a pronounced downward trend, this being with 40% less than the one registered in 2013 and with 49% more reduced towards the planned level.

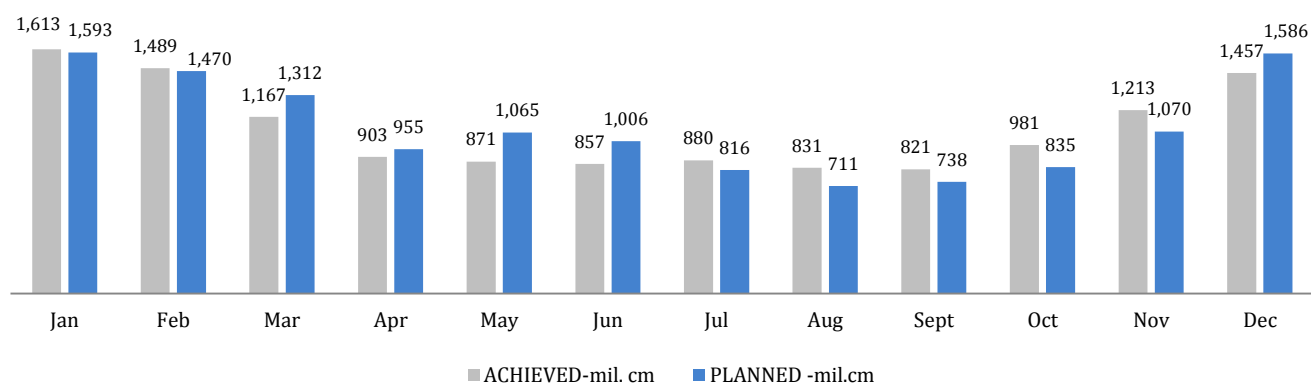
**For the first time in Transgaz' history, the technological consumption decreased under 100 million cm and under 1% as a percentage from the total natural gas circulated in the NTS.**

Mill. cm	ian	feb	mar	apr	mai	iun	iul	aug	sept	oct	nov	dec	TOTAL 2014
ROMGAZ	504	455	491	467	470	448	460	450	438	473	463	483	5602
PETROM	337	308	357	348	358	353	364	350	348	365	350	362	4200
OTHERS	32	28	31	28	27	25	26	26	28	42	36	34	363
CURRENT IMPORT	175	179	121	30	16	31	30	5	7	17	29	93	733
Withdrawal from storages	565	519	167	30	0	0	0	0	0	84	335	485	2185
ACHIEVED	1613	1489	1167	903	871	857	880	831	821	981	1213	1457	13083
PLANNED	1593	1470	1312	955	1065	1006	816	711	738	835	1070	1586	13157

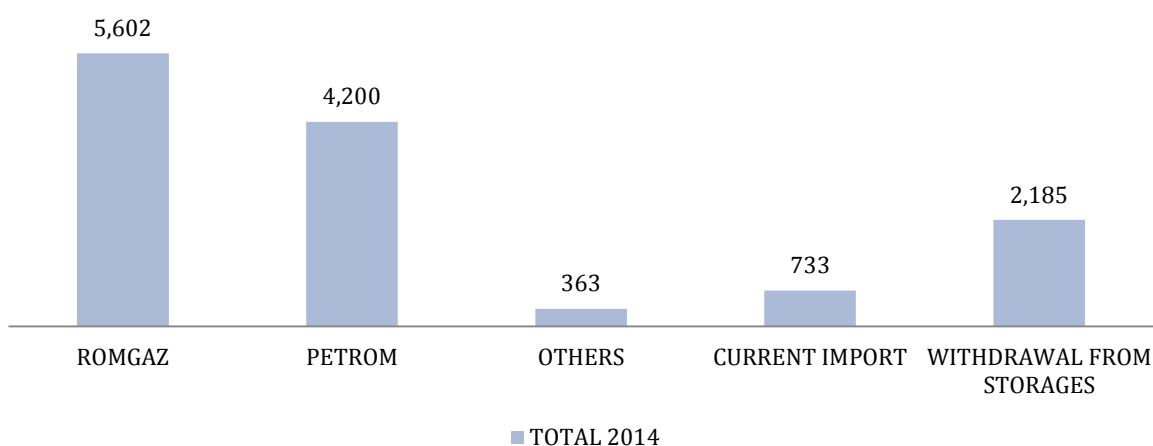
Chart no.7- The quantities of natural gas circulated in the NTS in 2014, as compared with the planned ones



**Chart no.7- The quantities of natural gas circulated in the NTS in 2014, by origin sources**



**Chart no.8- The quantities of natural gas circulated in the NTS in 2014 achieved vs. planned**

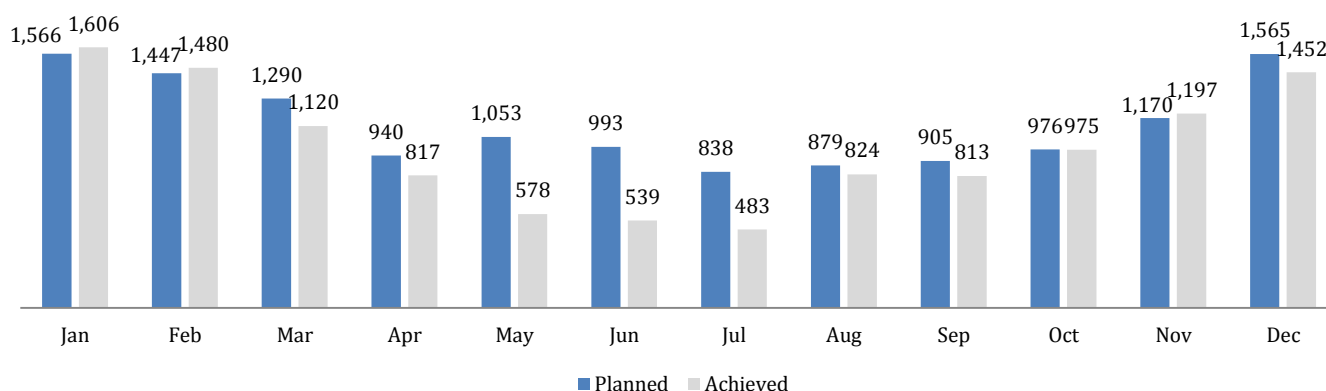


**Chart no.9- The quantities of natural gas circulated in the NTS in 2014, by origin sources**

	ian	feb	mar	apr	mai	iun	iul	aug	sep	oct	nov	dec	Total 2014
Planned	1,566	1,447	1,290	940	1,053	993	838	879	905	976	1,170	1,565	13,622
Achieved	1,606	1,480	1,120	817	578	539	483	824	813	975	1,197	1,452	11,884

**Table no.6- The quantities of natural gas transported to the direct consumers and distributions in NTS in 2014 achieved (includes also the quantity related to injection) vs the planned ones**



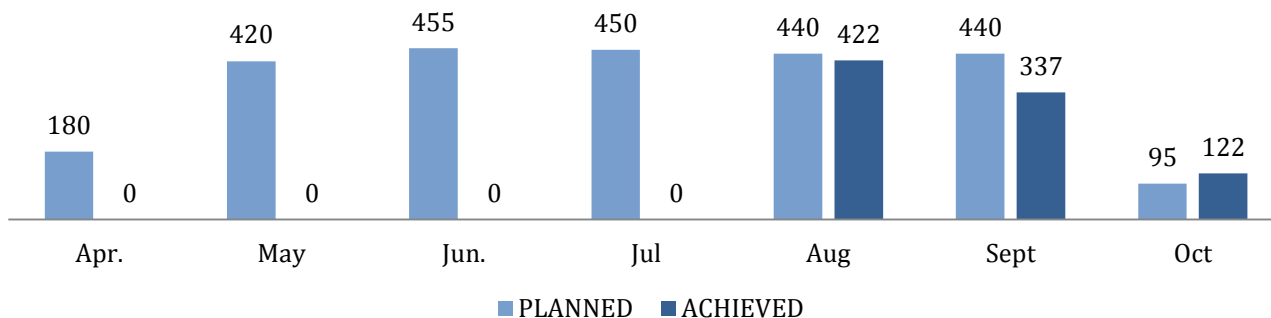


**Chart no.10- The quantities of natural gas transported to the direct consumers and distributions in NTS in 2014 achieved vs the planned ones**

As you may see, in 2014, the natural gas quantity transmitted was 11,88 billion cm, 1,74 billion cm lower than the planned quantity.

The quantities of gas intended to be stored in 2014 against the planned ones -million cm														
No.		Jan	feb	Mar.	Apr.	may	Jun.	Jul	aug	sept	oct	nov	dec	TOTAL
1	<b>PLANNED</b>	-	-	-	180	420	455	450	440	440	95	0	0	2,480
2	<b>ACHIEVED</b>	-	-	0	0	0	0	0	422	337	122	0	0	881

**Table no.7- The quantities of natural gas intended to be stored in 2014 achievements vs the planned ones**



**Chart no.11- The quantities of natural gas intended to be stored in 2014 achievements vs the planned ones**

The natural gas quantities in storages in 2014 is of approx. 36% of the planned ones

The comparative evolution of the incomes from operations, obtained by the company in the period 2012 -2014, is presented in the table below:

Specifications	Achievements			Dinamics (%)		
	2012	2013	2014			
1	2	3	4	$5=3/2*100$	$6=4/3*100$	$7=4/2*100$
<b>Incomes from transmission</b>						
- thousands lei	1,052,112	1,210,480	1,340,853	115.05	110.77	127.44
- MWh	130,466,645	119,741,363	126,703,188	91.78	105.81	97.12
- lei/MWh	8.06	10.11	10.58	125.43	104.65	131.27
- thousands cm	12,273,576	11,258,941	11,883,713	91.73	105.55	96.82
- lei/1000 cm	85.72	107.51	112.83	125.42	104.95	131.63
<b>Incomes from the international transmission</b>						
- thousands lei	275,875	268,537	273,760	97.34	101.94	99.23
<b>Other incomes From operation</b>						
- thousands lei	37,382	37,623	40,706	100.64	108.19	108.89
<b>TOTAL INCOMES FROM OPERATION</b>	<b>1,365,369</b>	<b>1,516,640</b>	<b>1,655,319</b>	<b>111.08</b>	<b>109.14</b>	<b>121.24</b>

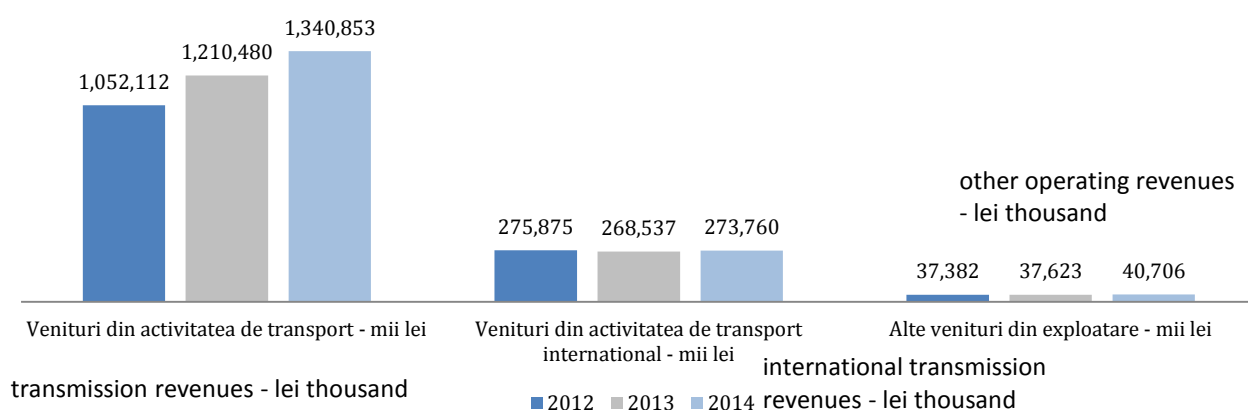


Table 8 – The comparative evolution of the incomes from operations in the period 2012 - 2014

Chart no.12 –Structure of the incomes from operations 2012-2014

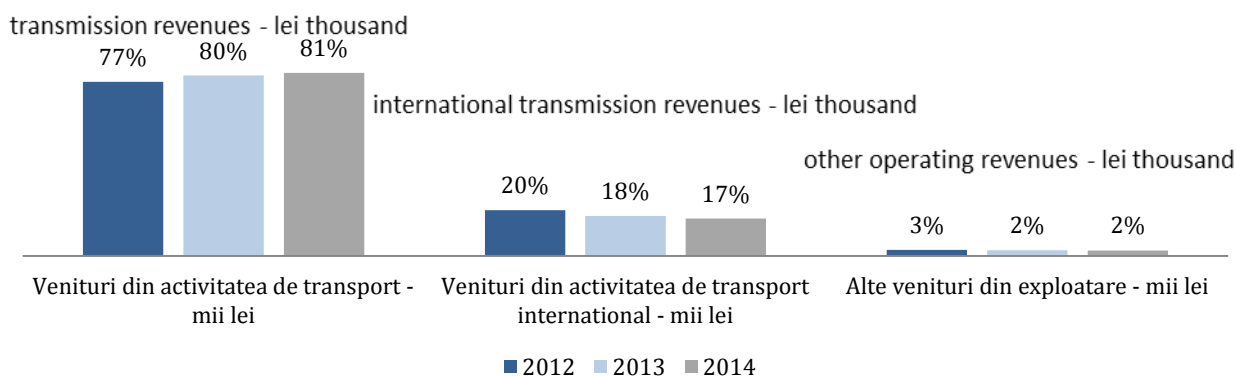
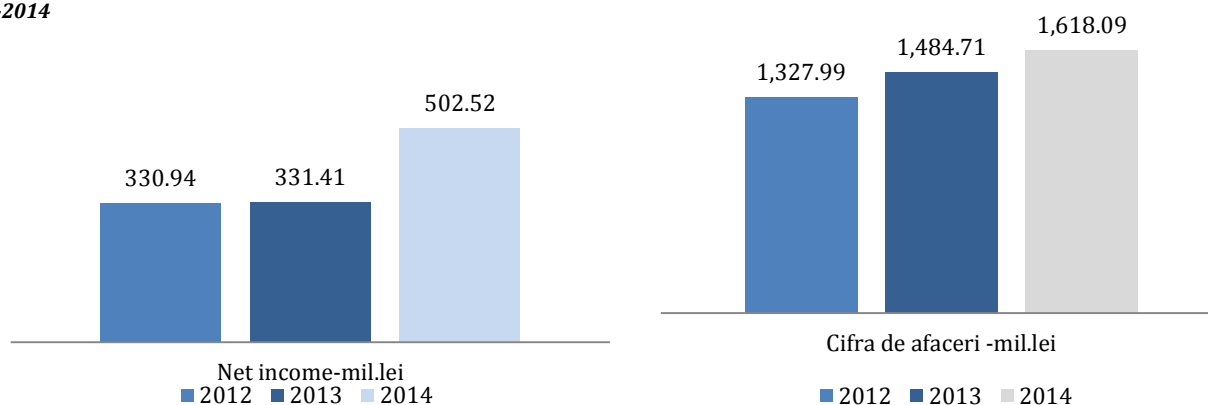


Chart no.13 – The share of the activities in the total incomes from operations 2012-2014

Indicator	Year			Dynamics-%		
	2012	2013	2014	2014/ 2013	2013/ 2012	2014/ 2012
	2	3	4	$5=4/3*100-100$	$6=3/2*100-100$	$7=4/2*100-100$
1	2	3	4	5=4/3*100-100	6=3/2*100-100	7=4/2*100-100
Turnover -mil.lei	1,327.99	1,484.71	1,618.09	8.98	11.80	21.85
Operations income -mil.lei	1,365.37	1,516.64	1,655.32	9.14	11.08	21.24
Operation expenses-mil.lei	998.82	981.65	1,063.75	8.36	-1.72	6.50
Operations profit - mil.lei	366.55	534.99	591.57	10.58	45.95	61.39
Financial Profit -mil.lei	27.99	-108.24	19.02	-117.57	-486.71	-32.05
Tax on profit-mi.lei	63.61	95.35	108.07	13.34	49.90	69.89
Net profit -mil.lei	330.94	331.41	502.52	51.63	0.14	51.85
Actuarial Gain/loss related to the period	-1.63	3.83	-16.13	-521.15	-334.97	889.57
Total global result related to the period - mil.lei	329.31	335.24	486.38	45.08	1.80	47.70

**Table 9 - Evolution of the operational performance indicators for 2012-2014**



**Chart 14 - Turnover in the period 2012-2014**

**Chart 15-Net profit in the period 2012-2014**

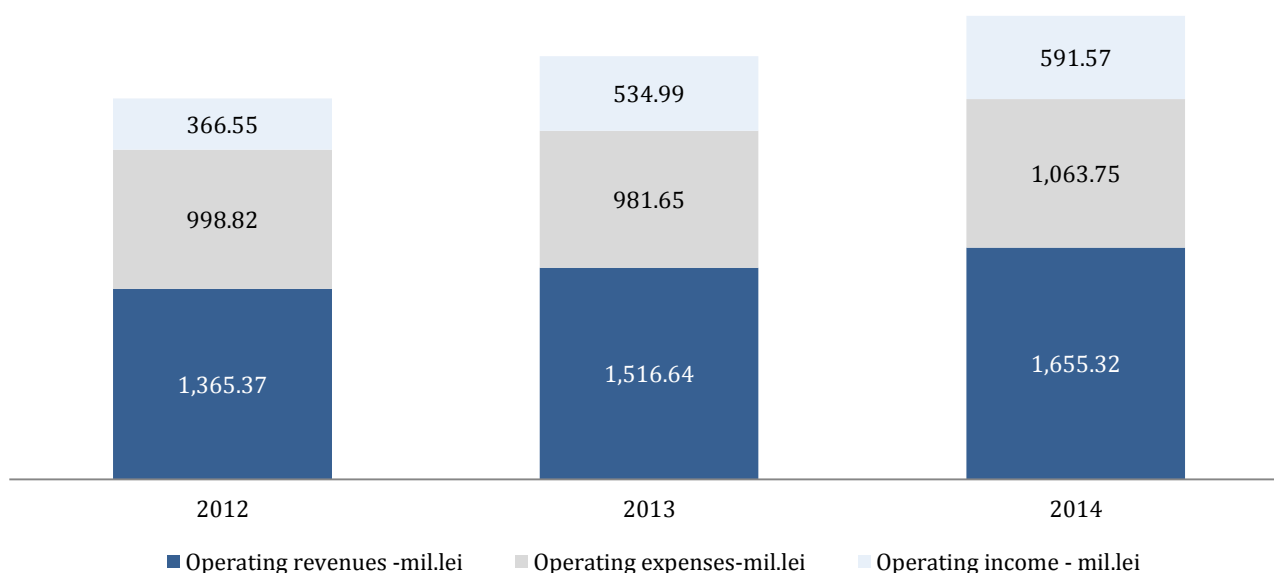


Chart 16- Evolution of turnover, expenses and operational profit in the period 2012-2014

## 2.2 Indicators of financial results

The economic-financial activity of Transgaz was conducted, in 2014 also based on the indicators included in the annual income and expenses budget approved by the General Meeting of Shareholders and by GD no. 462/04.06.2014.

The main economic-financial indicators achieved in 2014 compared to 2013 and 2012 are presented as follows:

Indicator	UM	2012	2013	2014
Turnover	thousand lei	1.327.987	1.484.714	1.618.089
Total income	thousand lei	1.420.158	1.557.361	1.688.694
Total expenses	thousand lei	1.025.612	1.130.604	1.078.107
Gross profit	thousand lei	394.546	426.758	610.587
Profit tax	thousand lei	113.404	99.954	115.377
Income from deferred profit tax	thousand lei	49.793	4.604	7.306
Net profit	thousand lei	330.936	331.408	502.516
Actuarial gain/loss for the period	thousand lei	-1.631	3.832	-16.131
Total comprehensive income for the period	thousand lei	329.305	335.240	486.385
Transmitted gas	thousand mc	12.273.575	11.258.941	11.883.713
Investment expenses	thousand lei	212.102	203.763	150.254
Rehabilitation expenses	thousand lei	104.259	61.176	51.752
Technological consumption	thousand lei	118.925	95.500	92.124
Technological consumption	thousand cm	239.199	160.140	96.940

Table 10 – Evolution of the main economic-financial indicators for the period 2012-2014

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

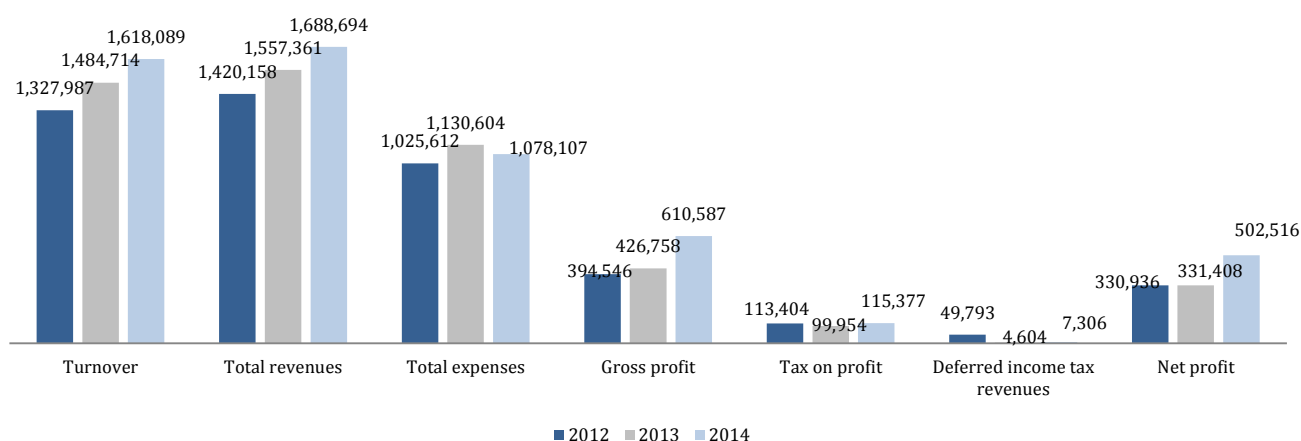


Chart 17- Evolution of main economic - financial indicators for -2012-2014

Out of total income achieved in 2014, around 16,3% is in foreign currency, from the international natural gas transmission.

As at December 31<sup>st</sup> 2014, the company's cash and cash equivalents amounted to lei 557.868.004, out of which 11,73% liquid assets denominated in foreign currency, most of it in USD.

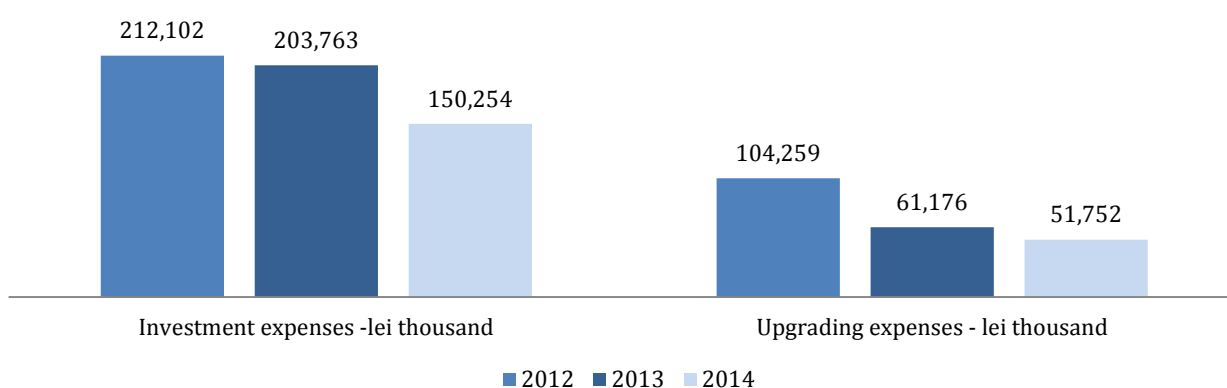
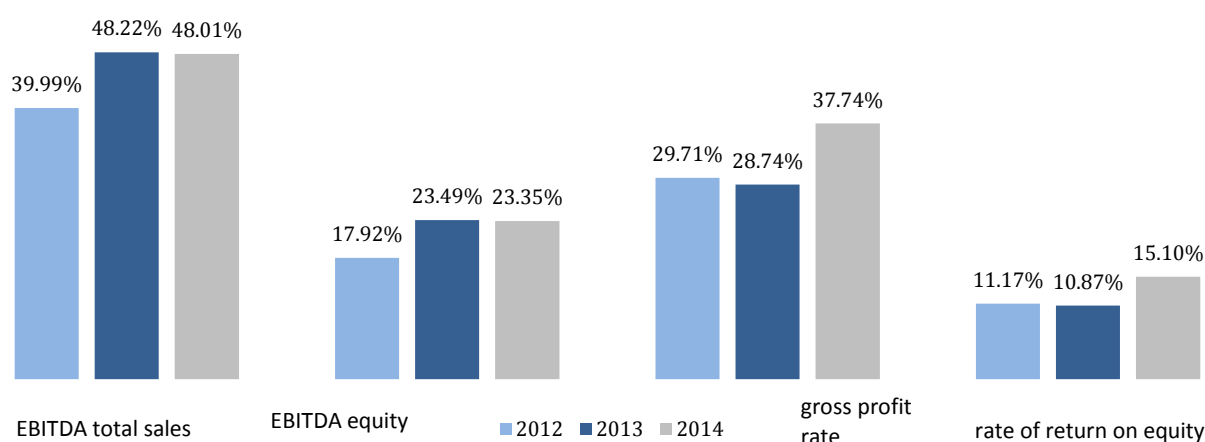


Chart 18- The evolution of the investments and rehabilitation expenses for the period 2012-2014

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

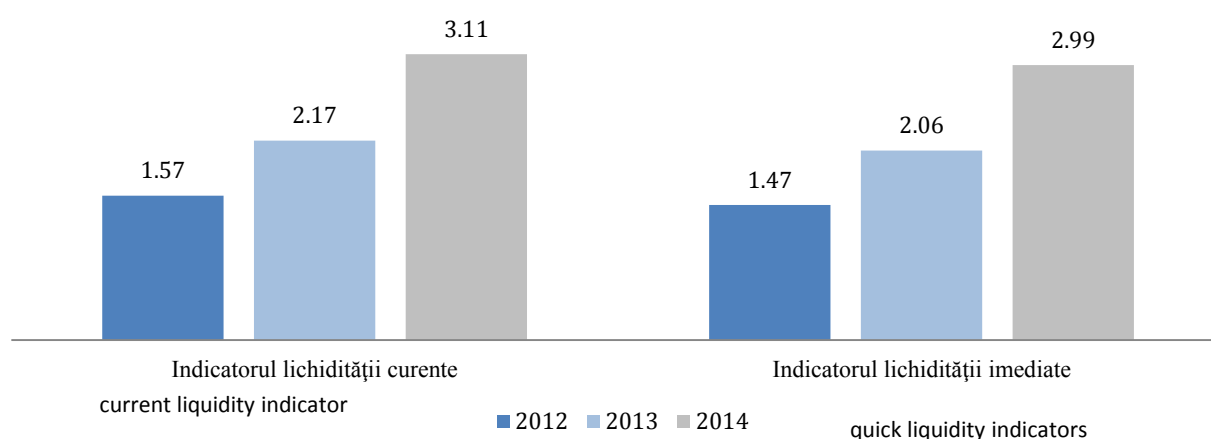
Indicators	Calculation formula	2012	2013	2014
<b>Profitability indicators</b>				
EBITDA in total sales	<u>EBITDA</u>	39,99%	48.22%	48.01%
	Turnover			
EBITDA in own capitals	<u>EBITDA</u>	17.92%	23.49%	23.35%
	Own capitals			
Gross profit share	<u>Gross profit</u>	29.71%	28.74%	37.74%
	Turnover			
Capital affordability share	<u>Net profit</u>	11.17%	10.87%	15.10%
	Own capitals			
<b>Liquidity indicators</b>				
Current liquidity indicator	<u>Tangible assets</u>	1.57	2.17	3.11
	Short term debts			
Immediate liquidity indicator	<u>Tangible assets - Stocks</u>	1.47	2.06	2.99
	Short term debts			
<b>Risk indicators</b>				

Debt degree indicator	<u>Leased capital</u>	1.62%	0.79%	0.00%
	Own capitals			
Interest covering share	<u>EBIT</u>	94.31	187.73	616,54
	Interest bearing expenses			
<b>Accountancy indicators</b>				
Debts rotation speed - clients	<u>Clients average balance x 181 days</u>	104.94	97.57	94.18
	Turnover			
Credits rotation speed - suppliers	<u>Suppliers average balance x 181 days</u>	32.46	22.41	17.61
	Turnover			



**Table 11 – Evolution of profitability, liquidity, risk and management indicators for the period 2012-2014**

**Chart 19– Evolution of profitability indicators for the period 2012-2014**



**Chart 20– Evolution of liquidity indicators for the period 2012-2014**

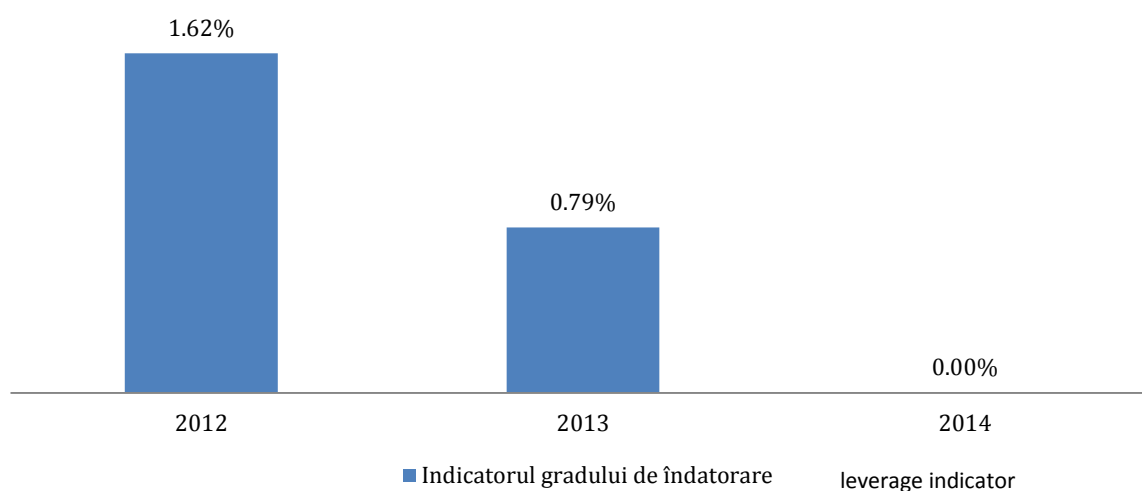


Chart 21- Evolution of risk factors for the period 2012-2014

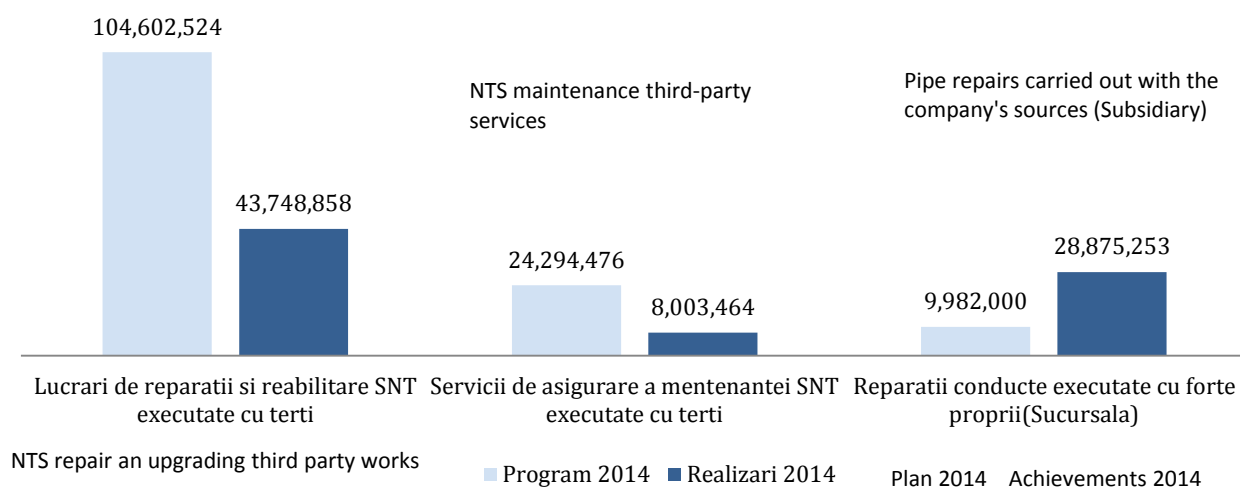
### 2.3 Indicators of the investment activity

The investment activity in 2014 was directed mainly towards the upgrading and development of the NTS in order to improve its efficiency, increase its capacity and develop new consumption areas.

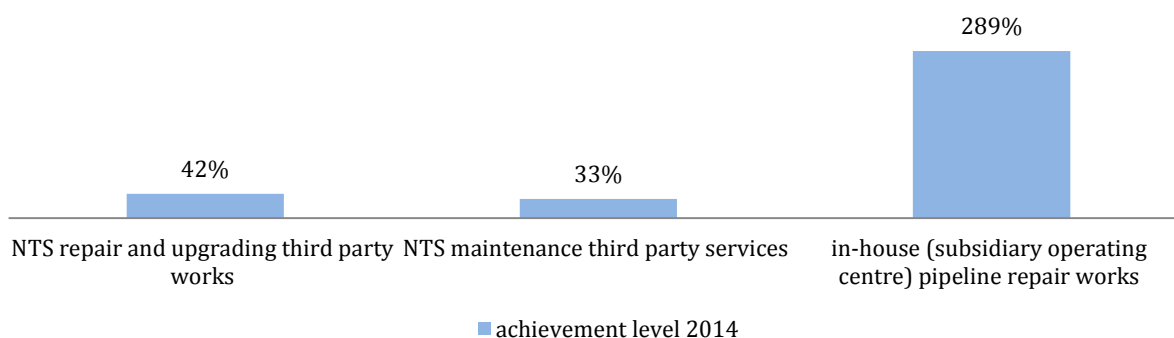
**The implementation of the Repairs, Rehabilitation and Maintenance Program for NTS in 2014 compared to the planned level is presenting as follows:**

No. crt.	Chapter name	Plan 2014	Achievements 2014	%
0	1	2	3	$4=3/2*100$
<b>Chap. A. REPAIR AND REHABILITATION WORKS FOR NTS (lei)</b>				
1	Scheduled repairs of main pipelines	95,957,524	42,062,868	43.83
2	Rehabilitation of Regulating and Metering Stations (S.R.M.)	4,220,000	1,594,164	37.78
3	Rehabilitation of Technological Nodes	0	0	0.00
4	Rehabilitation of Compressor Stations	0	0	0.00
5	Repairs of special facilities corresponding to SRMs and SCVs	500,000	0	0.00
6	Rehabilitation of Cathode protection systems (SPC)	490,000	0	0.00
7	Repairs and TC equipment	490,000	0	0.00
8	Repairs of buildings	2,945,000	91,826	3.12
	<b>TOTAL WORKS</b>	<b>104,602,524</b>	<b>43,748,858</b>	<b>41.82</b>
<b>Chap. B. MAINTENANCE SERVICES FOR NTS (lei)</b>				
	Maintenance services	24,294,476	8,003,464	32.94
	<b>TOTAL WORKS + SERVICES (third parties)</b>	<b>128,897,000</b>	<b>51,752,322</b>	<b>40.15</b>

Table 12- Implementation of the Repairs, Rehabilitation and Maintenance Programme for NTS in 2014



**Chart 22- Level of fulfilment of the Repairs, Rehabilitation and Maintenance Programme for NTS in 2014**



**Chart 23- Degree of fulfilment of the Repairs, Rehabilitation and Maintenance Programme for NTS in 2014**

The value of the Repairs, Rehabilitation and Maintenance Programme for NTS in the year 2014 was of 128.897.000 lei, at the end of the year being recorded achievements amounting to 51.752.322 lei, corresponding to a fulfilment of the program in a proportion of 40.15%.

The low figures in chapter A. “Works” were caused by:

- Difficulties during the process for drawing up the documentation to promote the procurement procedures;
- Difficulties in obtaining the construction permits from institutions and authorities;
- Compliance with some procurement procedures which did not end in contracts;

For chapter B “B. Services”, they were ensured mainly where it was necessary. It is worth mentioning that they represent necessities that cannot be easily predicted and if they are not necessary they represent savings in the budget and not unaccomplishments.

The causes that led to accomplishing the Repairs, Rehabilitation and Maintenance Program NTS for 2014 in a percentage of only 40.15% are presented in **Chapter 3.2.3 – Achieved rehabilitation, repairs and maintenance works for NTS vs. the planned ones.**



## Investment program

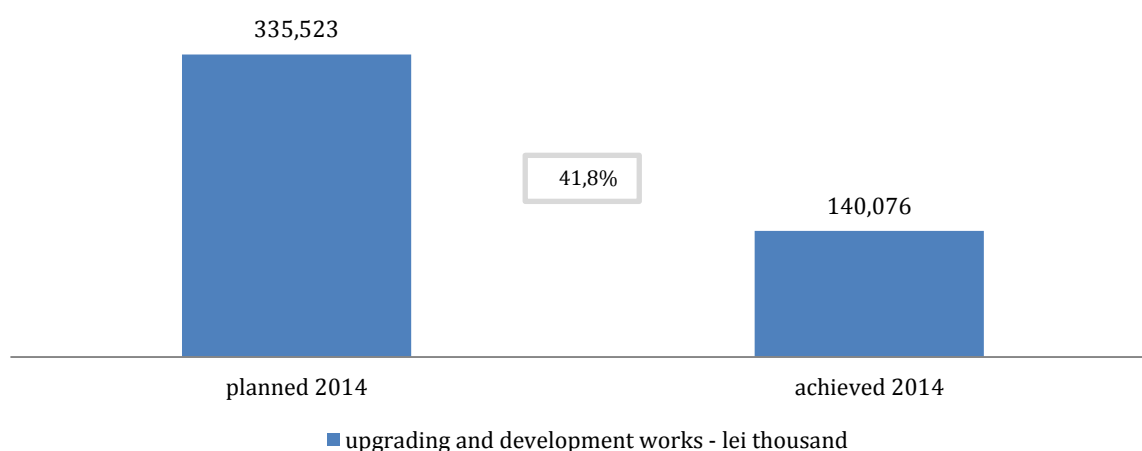
The implementing modality of the investments modernization and development program for 2014, is presented in the table below

Chapter	Works category	Plan 2014		Achieved 2014		%
		Physical (km)	Valoric (lei thousand)	Physical (km)	Valoric (lei thousand)	
0	1	2	3	4	5	6=5/3*100
<b>Chap. A</b>	<b>NTS modernization and development works</b>	<b>50,08</b>	<b>298.664</b>	<b>17,96</b>	<b>122.461</b>	<b>41,00%</b>
<b>1</b>	<b>Modernization and retrofitting of the National Gas Transmission System</b>	-	<b>189.262</b>	-	<b>90.925</b>	<b>48,04%</b>
1.1.	<i>Modernization of the technological installations afferent to the National Gas Transmission System (SRM, SCV, PM, NT)</i>	-	136.407	-	88.44 2	64.84 %
1.2.	<i>Data acquisition and control system</i>	-	52.855	-	2.483	4,70 %
<b>2</b>	<b>Development of the National Gas Transmission System and afferent installations</b>	<b>50,08</b>	<b>109.402</b>	<b>17,96</b>	<b>31.535</b>	<b>28.82%</b>
2.1.	<i>Natural gas transmission pipes</i>	47,98	52.149	17,96	19.61 7	37.62 %
2.2.	<i>Interconnection pipes</i>	2,1	5.561	0	201	3,61 %
2.3.	<i>Transmission capacity increasing</i>	-	7.700	-	0	0%
2.4.	<i>Surface construction and installation works for SRM</i>	-	16.608	-	2.256	13,58 %
2.5.	<i>Cathode protection stations</i>	-	661	-	923	139,6 3%
2.6.	<i>Electric installations and networks</i>	-	830	-	28	3,37 %
2.7.	<i>Installations afferent to the information technology and telecommunications</i>	-	14.403	-	3.788	26,30 %
2.8.	<i>Surface construction and installation works for odourization</i>	-	2.990	-	689	23,04 %
2.9.	<i>Hydrotechnical works</i>	-	7.830	-	3.879	49,54 %
2.10.	<i>Filtering installations</i>	-	670	-	153	22,84 %
<b>Chap. B</b>	<b>Own assets modernization and development works</b>	-	<b>33.860</b>	-	<b>11.672</b>	<b>34.47%</b>
<b>1</b>	<b>Other works</b>	-	<b>9.860</b>	-	<b>288</b>	<b>2,92%</b>
<b>2</b>	<b>List of the devices, equipments and endowments</b>	-	<b>24.000</b>	-	<b>11.108</b>	<b>46,28%</b>
<b>Cap. C</b>	<b>Access works to NTS</b>	<b>3,0</b>	<b>3.000</b>	<b>1,04</b>	<b>5.943</b>	<b>198.10%</b>
<b>TOTAL planned investments</b>		<b>53,8</b>	<b>335.523</b>	<b>19,00</b>	<b>139.800</b>	<b>41,67%</b>
<b>Lands</b>			<b>1.000</b>	<b>0</b>	<b>0</b>	<b>X</b>
<b>Expenses related to studies and projects</b>			<b>58.601</b>		<b>10.178</b>	<b>17.37%</b>

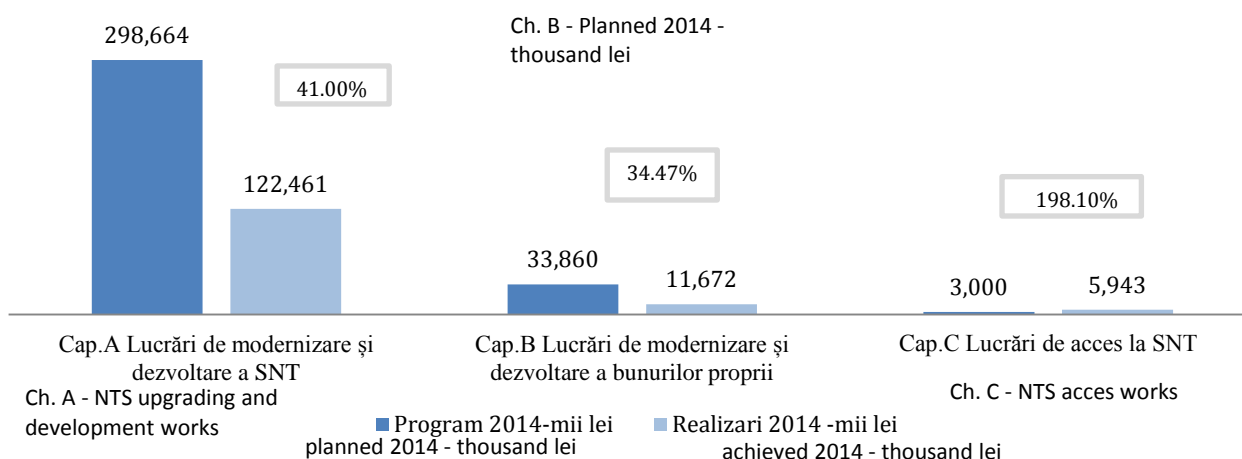
Technical equipment to be supplied		0		1.798	X
<b>OVERALL TOTAL</b>	<b>53,8</b>	<b>395.124</b>	<b>19.00</b>	<b>151.776</b>	<b>38.41%</b>

*Table 13- Fulfilment of the Investment Programme in 2014*

The value of the investments planned for 2014, was 335.523 mii lei. The value of the achievements in the end of 2014 was 139.800 thousands lei, including also the amount of 5.943 thousands lei representing the works for the connection of the new consumers to the NTS, achieved based on the NTS access rules approved by GD no. 1043/2004. The total amount related to the investment expenses planned for 2014 was 395.124 thousands lei including also the amount related to lands purchasing and expenses for studies and projects.



*Chart 24- Achievement of investments vs. Investment program in 2014*



*Chart 25- Achievements vs program under the Programme for Investment Development and Upgrading by chapters in 2014*

Compared to the scheduled value of the program for 2014, 335.523 thousands lei, the total value of the achievements was of lei 139.800 thousand, representing a program fulfilment in a percentage of 41,67 %.

The causes that led to a fulfilment of the investment program in a percentage of only 41,67% mainly consist of legal matters related to access in the field, authorizations which were not obtained in due time, changes implemented by NARMPP in the tender validation procedures, the fact that the Nabucco West Project was not selected as gas transmission route, etc.

**Detailed, the causes that led to the fulfilment of the investment modernization and development program for 2014, in a percentage of only 41,67%, are presented in Chapter 3.2.2.**

## SCADA

An important direction for the improvement of the quality of the execution and the efficiency of the operational activity of SNTGN Transgaz SA Mediaş is the implementation of the Data control and acquisition System (SCADA), which is a legal obligation , provided initially in Art 25 of Gas Law no. 351/2004 and reiterrated in Art. 130, point c, of Natural gas and Electricity Law no. 123/2012.

As the technical operator of the NTS, the company has to increase the security of natural gas supply. In this respect, SNTGN Transgaz SA initiated the procedure for the implementation, maintenance and development of a monitoring, control ans acquisition of the SCADA data system.

The project is in the IIIrd implementation stage and the stage of the implementation/achievement is detailed according to the following objectives:

Objective Type	In the contract	Connected
National Dispatching Center Medias	1	1
Natural gas Dispatching Center Bucharest	1	1
Territorial dispatching operations	9	9
Metering regulating stations	948	948
Line valves	106	106
Technological Hubs	39	4
Compressor Stations	5	1
International Transit Stations	6	6
Import Stations	2	2
Underground storages	8	7*
<b>Total</b>	<b>1.125</b>	<b>1.085</b>

*Note: \* The underground facility AMGAZ was neutralized and shall not be implemented any more*

During 2014 works were executed at the following locations:

- Metering and regulating stations – 25MRS were executed and finalized ;
- Technological hubs – works were executed and performed in NT, the final acceptance shall be performed in the near future;
- Underground storages – 7 Underground storages were executed and finalized, the final acceptance in these locations shall be performed in the near future;

- Compressor stations – 2 Compressor stations were executed and finalized, the final acceptance in these locations shall be performed in the near future s-au.

The finalization of SCADA implementation (the achievement of the IIIrd stage – the final stage) is extremely important because the informatics system will enable:

- The transmittam, in realtime, of the technological data (pressure, flow, temperature, gas quality, calorific power) to the national dispatching center;
- The improvement of 'TRANSGAZ' ability to control and react rapidly and efficiently to any potential risk to interrupt the activity contributing to the increase of the security of the operation of the national gas transmission system;
- Ensure the necessary conditions to provide short term natural gas transmission services in/out of the national gas transmission system and to execute the contacts related to this type of services, according to the requirements of the Regulation (EC) no. 715/2009.

The situation of the total investment costs (thousand lei):

	<b>Planned 2014</b>	<b>Achieved 2014</b>
Investitions of which:	395.124	151.776
-Works for the access to the NTS surpassing the tariff related to the connection to the NTS	3.000	1.927
Repayment of loans for investments	24.000	24.000
<b>TOTAL EXPENSES INCURRED WITH INVESTMENTS</b>	<b>419.124</b>	<b>175.776</b>

*Table 14- Situation of total expenses incurred with investments (thousands lei)- the year 2014*

The investments were financed from the following sources (thousands lei):

	<b>Planned 2014</b>	<b>Achieved 2014</b>
▪ Net profit allocated for own financing	165.267	219.924
▪ Amortization and depreciation related to Transgaz financed facilities	170.121	173.553
▪ NTS connection tariff		4.015
▪ European funds		9.861
▪ Net profit allocated for own financing	212.251	194.487
<b>TOTAL FINANCING SOURCES</b>	<b>547.639</b>	<b>601.840</b>

*Table 15- Investment financing sources (thousands lei) 2014*

### Accessing European funds

The activity of accessing the European funds from 2014 – the year when is starting the new financial year of the European Union 2014 – 2020, from the point of view of the European funds, has developed mainly for:

- Identifying the financing possibilities from the future period, based on the programs promoted by the European Committee;
- Supporting TRANSGAZ' projects with financing potential from Structural Funds;
- The tracking / monitoring of the execution contracts that benefit of communitarian financing;
- Preparation of the financing requests and of the related documentations;
- Inter-department collaboration in order to issue the necessary documentation for the financing requests and information transmission in order to know the granting mechanisms of the European finances.

According to the company's organization and functioning regulation, *the European Funds and International Cooperation Department*, was focused, through the activities performed during 2014, on the fulfilment of the objectives provided in Transgaz Management Plan for the period 2013 – 2017.

From the main achievements of the department (some of them in cooperation with other departments of the company) the following are worth mentioning:

<p>👉 Within the program POS CCE 2007 – 2014 a grant of Euro 10.6 million was obtained for the upgrading of the Compressor Station Șinca.</p>
<p>👉 A grant of Euro1.5 million was obtained for financing the design of the compressor stations within the southern route of the Danube river within the Connecting Europe Facility Program of the European Commission.</p>
<p>👉 Drawing up a joint investment request Transgaz – FGSZ ( in cooperation with the Project Management Unit Marea Neagră), as a first step for accessing CEF funds for the Project BRUA.</p>
<p>👉 Promotion of Transgaz' projects included in the Ten Year NTS Development Plan, for selection and inclusion within the second list of projects of common interest;</p>
<p>👉 Solve the regulatory aspects related to Iași – Ungheni Interconnector which was commissioned in August 2014;</p>
<p>👉 Obtained from the NERA the certification as independent system operator according to the Directive 2009/73/EC and to the Law no. 123/2012.</p>

**The following activities were performed for the projects under development for which we received grants from european funds:**

- Drawing up reports, letters, documents which were sent regularly to the funding bodies according to the provisions of the Financing Decision of the European Commission and to the Management Authority – Intermediary Body for Energy for the management of Transgaz' projects which benefited from European grants;

- Monitoring the eligible expenses related to the implementation of the Giurgiu – Ruse project, resulted from the contracts related to the execution of the works on the terrestrial and undercrossing sections of the Danube river;
- Inform TRANSGAZ management on the monitoring of the implementation of the Romania – Bulgaria Interconnection project, with respect to the non-conformities discovered and to the need to correlate the implementing activities with the provisions of the regulations in force and the provisions of the Financing Contract;
- Consultations in view of identifying the solutions on the extension of the implementation period of the financing contracts for the projects undergoing the risk of not complying with the deadlines set, and the identification of the reasons to underlie the extension letter;
- Analyze the effects upon the financing contracts, if the modification of a result indicator assumed in the contract is decided;
- Information regarding the points of view related to the implications that may appear as a result of the modification of the works execution contracts in correlation with the provisions of the financing decisions/contracts;
- Draw up the Financing Request for the project "Upgrading GCS Șinca and the related installations";
- Conclude the financing contract for the project "Upgrading GCS Șinca and the related installations" , with a maximum value of the grant of – 47,816,886 lei (10,625,974 €);
- Ensure the assistance and cooperation, supply additional information, several evaluation/verification /control (internal audit, control) requested for auditing/checking of the European financing projects;
- Monitoring the deployment of the procurement activities for the selection of the contractor of the project;
- Draw up Progress Reports and Notifications sent to the Intermediary Body for Energy – the representative of the Management Authority , according to the provisions of the related financing contract ;
- Draw up and send to DG-ENERGY within EC, a letter detailing and reasoning the status of the project implementation, in view of the partial settlement possibility after the notification received from the European Commission on the suspension of EU funding for the project "Ensure reversible gas flow on the Bulgaria dedicated transit pipeline ";
- Engaging of the external Audit service for auditing the implementation of the project "Ensure reversible gas flow on the Bulgaria dedicated transit pipeline " and a favourable Audit report was obtained;
- Drawing up the documentation related to the final payment request for the above mentioned project and sent it together with the Audit report, within the legal deadline, to the European Commission;
- Drawing up for DG-ENERGY within EC, a report to present the current situation related to the implementation of the project emphasizing the execution of the works related to Danube undercrossing in order to sustain and underlie the new request for extension of the eligibility period of the costs generated by the implementation of this project;
- Drawing up the joint request for extension of the eligibility period of the costs generated by the project "Romanian – Bulgaria Interconnector", with

BULGARTRANSGAZ, and its transmittal to the European Commission according to the provisions of the financing contract;

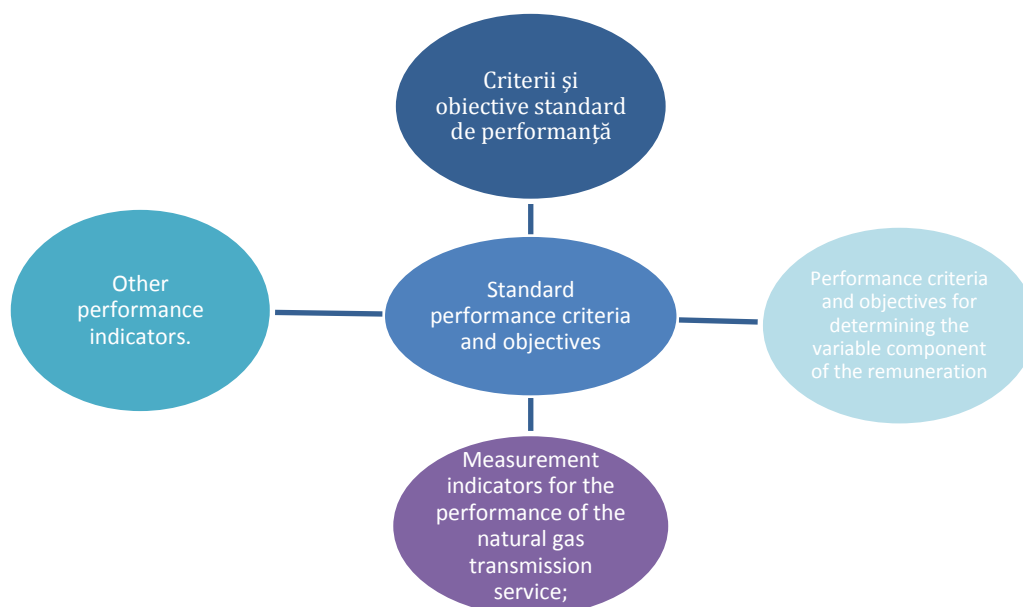
- Conclusion of the Financing contract for the project “ Educational and Technical Assistance at a national level for actions against discrimination in the companies from the gas industry” (ATENA), the implementation of this project is managed by the Gas Unions Federation – Romania, the grant amount is 9,779,434.77 lei;
- Monitoring of the implementation of the ATENA project within the Operational Sectorial Program for the Development of Human resources 2007 – 2013, on the promotion of social inclusion – Promotion of equal opportunities on the labour market and the amounts collected for prefinancing, that is 998,003.34 lei, collected in June 2014.

**In order to obtain new funding for TRANSGAZ' projects, the following activities were performed:**

- Identification of the priority axis in the Financing programs 2014 – 2020, for which TRANSGAZ could submit Financing Requests and which will be achieved after the opening of these programs and the publication of the Applicants' Guides;
- Analyze the correlation of the financing possibilities with own investment targets;
- Interventions at the rightful bodies in order to highlight the “natural gas sector ” within the Partnership Agreement Romania – European Commission and to highlight this sector in the operational programs 2014 – 2020;
- Drawing up the lists including TRANSGAZ' actual projects, with the related projects fiches , in view of the financial allocation for the financial years 2014 – 2020;
- Analyze the new Operational programs which will provide the eligibility framework necessary for financing the projects in the following period, financing opportunities;
- Interventions for the allocation of funds in the financial years 2014–2020, for the gas transmission sector through the Operational program Large infrastructure;
- Drawing up and submit to the European Commission the necessary documents and the Financing Request for grants from the European funds for drawing up the “Technical project for the Compressor Stations Corbu, Hațeg and Horia” from the project „Development on the territory of Romania of the Natural Gas Transmission System on the corridor BULGARIA – ROMANIA – HUNGARY – AUSTRIA” the project complies with the financing conditions under the Connecting Europe Facility (CEF);
- Cooperate with the parties involved in supplying the information, documentation, necessary forms for drawing up the Financing Requests and in the conduct and monitoring of the projects financed by european funds, national and international authorities;

## 2.4 Indicators of management performance

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



### Standard performance criteria and objectives

Performance criteria	Performance objective	Management Plan 2014	Achieved 2014	Achievement degree
Implemented investments – thousand RON	Achieving the programmed level	195.400	118.843	60.82%
EBITDA –thousands lei	Increasing EBITDA	583.753	776.861	133.08%
Work productivity –lei/pers	Increasing work productivity in value units (turnover / average personnel no.);	327.472	332,567	101.56%
Overdue payments- thousand RON	Making payments according to contract terms (in current prices)	0	0	100%
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	72,200	99.724	72.40%
Technological consumption- %	Meeting the quantities of natural gas representing technological consumption	100.00%	41%	244.54%
Operating expenses for 1000 RON operating income	Decreasing operating expenses for 1000 RON operating income	759.24	642.63	118.15%



RON				
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**Table 16 – Degree of fulfilment of standard performance indicators in 2014**

Performance criteria	Performance objective	Weighting coefficient %	Achievement degree 2014 %	Fulfilment level in 2014 according to the weighting coefficient
Commissioned investments –thousand RON	Achieving the programmed level	15	60.82	9.12
EBITDA –thousand RON	Increasing EBITDA	15	133.08	19.96
Work productivity – RON/pers	Increasing work productivity in value units (turnover / average personnel no.);	15	101.56	15.23
Overdue payments - thousand RON	Making payments according to contract terms (in current prices)	15	100	15.00
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	10	72.40	7.24
Technological consumption %	Meeting the quantities of natural gas representing technological consumption	15	244.54	36.68
Operating expenses la 1000 RON operating income RON	Decreasing operating expenses for 1000 RON operating income	15	118.15	17.72
<b>TOTAL</b>		<b>100%</b>		<b>120.96%</b>

**Table 17– Level of fulfilment of standard performance indicators in 2014**

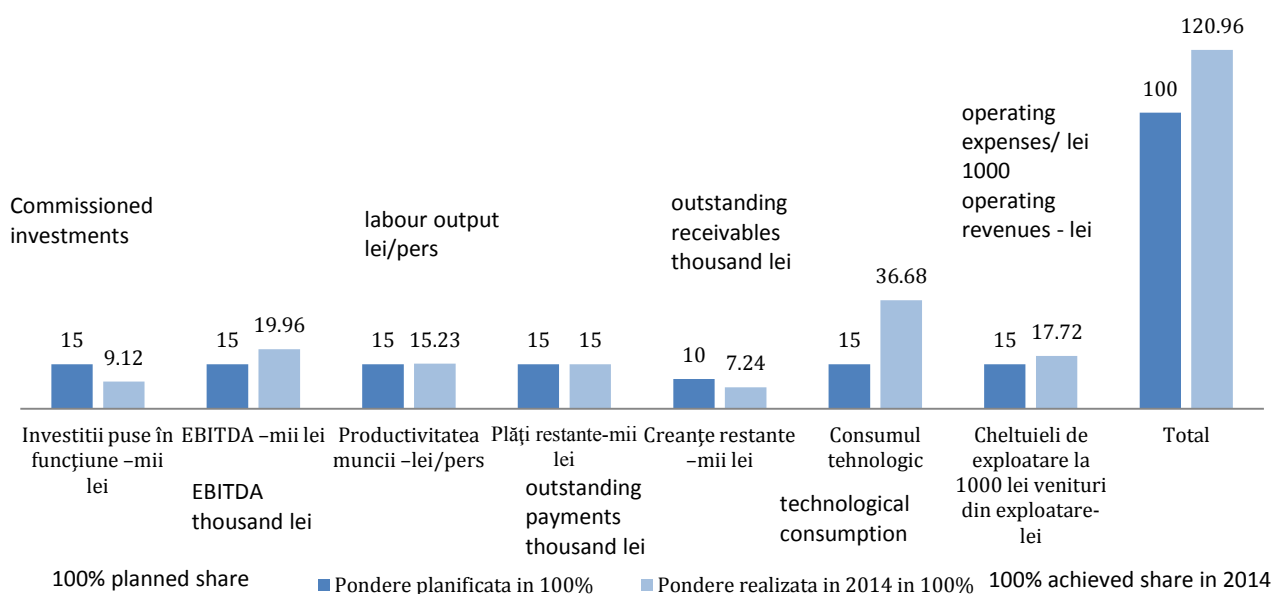
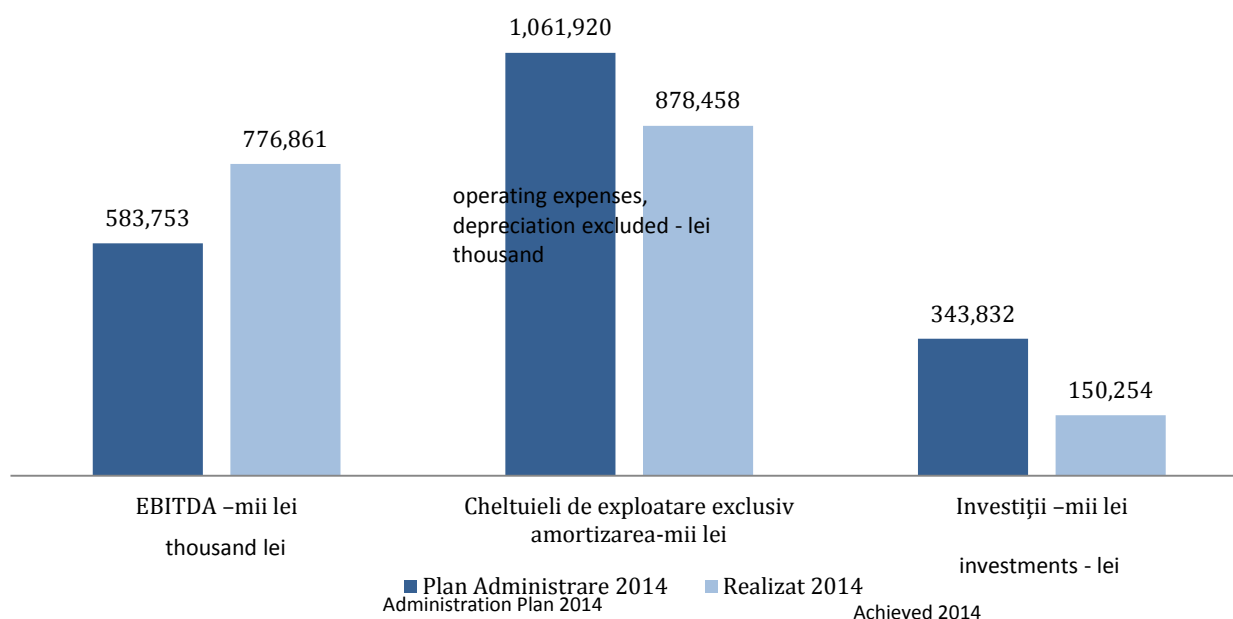


Chart 26- Aggregate level of fulfilment of standard performance indicators in 2014

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

PERFORMANCE CRITERION	PERFORMANCE OBJECTIVE	Plan Administrare 2014	Realizat 2014	Grad de realizare %	Diferente +/- mii lei
EBITDA – thousand RON	Fulfilment of the EBITDA target undertaken in the Management Plan	583.753	776.861	133%	193.108
Operating expenses without amortisation thousand RON	Reducing the level of operating expenses (without amortisation expenses) actually incurred in relation to the level undertaken in the Management Plan	1.061.920	878.458	121%	- 183.462
Investment – thousand RON	Increasing the level of investments actually made in relation to the level undertaken in the Management Plan	343.832	1551.776	44 %	-192.056

Table 18- Degree of fulfilment of performance indicators for determining the variable component of the remuneration in 2014



**Chart 27 - Level of fulfilment of performance indicators for determining the variable component of the remuneration in 2014**

## Indicators underlying the performance of the natural gas transmission service

**The performance standard for the natural gas transmission service**, approved by the Decision of the president of the National Energy Regulatory Authority in the field of natural gas no. 1.361/13.12.2006 and published in the Official Gazette 27 bis in 16 January 2007, as amended and completed by the Order of the NERA President no. 45/24.04.2008, regulates the commercial quality criteria, defined by the performance indicators in order to ensure the natural gas transmission services and the ancillary services performed by the transmission system operator (TSO).

Performance indicator (no. article)	Objective	Achievements 2014
<b>IP1</b> –Solve the access requests for the connection to the NTS (art.5)	98%	100%
<b>IP2</b> –Execute the NTS connection installation related to the access requests (art.6 lit(a) și (b))	98%	100%
<b>IP4</b> – Notification on the resumption of the service provision (art.8 (1) letter (a) and (b))	95%	100%
<b>IP5</b> – Notification on the planned interruptions in the service provision and its resumption (art.9 (1))	100%	100%
<b>IP6</b> –Solve the complaints of the NTS users on natural gas metering (art.10 (1) letter (a) and (b))	98%	100%
<b>IP7</b> –Solve the referrals related to the integrity and NTS operation under safety conditions (art.11 par. (2))	95%	100%

<b>IP8</b> –The obligations of the TSO to inform the applicants/users, according to other regulations of the National Regulatory Authority on natural gas (ANRGN) (art.12)	95%	100%
<b>IP11</b> – Safety indicators (art.15 (1) letter (a)) RCA  (art.15 (1) letter (b)) NAP  (art.15 (1) letter (c)) NAP <sub>T</sub>	maximum 8,3%	7,4%
	0.8	0.01
	0.1	0.00

*Table 19 –Achievement of the performance indicators related to the gas transmission service for 2014*

**IP10**-Tel Verde: 0800872674 is mentioned on the web page of the company [www.transgaz.ro](http://www.transgaz.ro)

Total number of calls received in **2014** -21 calls

Content of the calls:

- Request for information on dividends– 1 call;
- Request for information on compensations– 1 call;
- On the activity of SNTGN Transgaz SA Mediaş – 6 calls;
- Request for gas meter mounting– 1 call;
- Search for Samsung representative– 5 calls;
- mistakes - 7 calls.

The reported issues solving – all the calls were effectively addressed.

### **Other performance indicators**

In 2014, the company's management has undertaken a number of technical organizational and economic measures that allowed optimization of both the image and reputation capital of the company in relation to stakeholders and development of a more efficient, more accountable and more transparent organizational climate in terms of activity and management of employed resources, consistent with the requirements of European and national regulations on natural gas transmission.

## **3. ANALYSIS OF THE COMPANY'S ACTIVITY**

### **3.1 Analysis of the operational activity**

#### **3.1.1 Regulatory framework**

The main object of activity of Transgaz - **NACE Code 4950 –Transport via pipelines** – is defined by law as the activity organized for the circulation of natural gas through the National Natural Gas Transmission System (NTS) or through other transmission systems. In addition, Transgaz also carries out related/secondary activities supporting its main object of activity, according to the legislation in force and the company's updated Articles of Incorporation.

According to the regulatory framework applicable to the natural gas sector, Transgaz conducts the natural gas transmission activity based on the specific field legislation and

the Concession Agreement concluded with the National Agency for Mineral Resources approved by GD no. 668/2002, as amended and supplemented, and on the Licence to Operate the Natural Gas Transmission System no. 1933 granted by Decision no. 3911/20.12.2013 for the development of the natural gas transmission system operation issued by the National Energy Regulatory Authority (ANRE).

The natural gas transmission activity is a public service of national interest and it is included in the regulated segment of the domestic natural gas market. The transmission service has a natural monopoly status and is carried out based on a tariff regulated by ANRE. The contracts for the provision of natural gas transmission services are usually concluded for a period of 1 gas year, based on the Framework Contract appendix to the Network Code for the National Natural Gas Transmission System, approved by Order of the President of ANRE no. 16/March 27, 2013, as amended and supplemented.

Another important legislation for Transgaz' activity is the NERA Order no.34/2013 on the approval of the Regulation for granting permits for establishment and licesing in the natural gas sector.

Regulations which appeared during 2014 and which have an impact upon Transgaz' activity:

- *Government Emergency Ordinance no. 102/ 14 November 2013 for the modification and supplementation of Law no. 571/2003 on the Fiscal code and the regulation of some financial fiscal measures , applicable as of 01 January 2014* in which the tax on the constructions part of Transgaz' assets on 31 december of the previous year was introduced as 1,5 % per year;
  - *The NERA Order no. 3/ 22 January 2014 on the approval of the certification of the National Gas Transmission Company "Transgaz" - S.A. Mediaş as operator of transmission and system of the National Gas Transmission, in which it was approved that the National Gas Transmission Company "Transgaz" - S.A. Mediaş to be organized as to operate according to the model "independent system operator"*
  - *Government Emergency Ordinance no. 6/ 12 February 2014 on the exercise of the rights and obligations arising from the state being a shareholder in The National Electricity Transmission Company "Transelectrica" - S.A. and in the National Gas Transmission Company "Transgaz" - S.A. Mediaş and for the amendment of some regulations , in which it was settled that the Government will exercise of the rights and obligations arising from the state being a shareholder in the National Gas Transmission Company "Transgaz" - S.A. Mediaş, by the General Secretariat of the Government , in consultations with the Prime Minister's Office;*
  - *NERA Order No. 32 / 21.05.2014 approving the methodology for setting the regulated revenue, total revenue and regulated tariffs for the natural gas transmission activity;*
  - *Law no. 174 / 12.16.2014 regarding the approval of Government Emergency Ordinance no. Law 35/2014 for electricity and natural gas no. 123/2012 (published in the Official Gazette no. 919 / 12.17.2014) came into force on 12.20.2014 and made beneficial changes and additions to the existing regulatory framework. Starting with 1 January 2015 until 31 December 2016, the licensed suppliers are required to conclude transactions on centralized markets, in a*

transparent and non-discriminatory way for the sale / purchase of a minimum gas quantity in accordance with regulations issued by the National Regulatory Authority Energy. In order to ensure non-discrimination between the same class of consumers by the end of the regulatory period, household customers and heat producers, only related to the quantities of natural gas used for heat production in CHP and heat plants for household consumption bear the same treatment in terms of ensuring the quantities and sales price of the natural gas consumed, irrespective if they choose to be eligible or regulated. The purchase price of natural gas from domestic production for domestic customers and heat producers, only for the quantities of natural gas used to produce heat in cogeneration plants and heating plants for household consumption is determined by Government decision, at the proposal of the related ministry, in accordance with the provisions of the Calendar of phasing out regulated prices for end customers;

- *G.E.O. no. 86/17.12.2014 rectified, on the establishment of reorganization measures at central government level and on amending and supplementing certain acts stipulated in Article 10, para. (1) that as of the entry into force of the ordinance, the exercise of rights and obligations arising from the State being a shareholder in Transgaz is performed by the Ministry of Economy, Trade and Tourism and the **art. 18 para. (7)** provides that, in art. III para. (1) and (2) of Law no. 117/2014 (published in the Official Gazette. No. 527 of 16.07.2014) approving GEO no. 6/2014 (published in the Official Gazette no. No. 113 of 02.14.2014) on the exercise of rights and obligations arising from the State being a shareholder in the company National Power Transmission Company Transelectrica - SA and the National Gas Transmission Company Transgaz - SA Medias and amending certain legal acts, the name of the Ministry of Public Finance shall be replaced by the **Ministry of Economy, Trade and Tourism**;*
- *G.E.O. no.90 / 12.23.2014 for amending and supplementing Law no. 297/2004 on the capital market. This bill, among other changes it removes the representation of the shareholders at the General Assemblies;*
- *Law no.186 / 29.12.2014 of the state budget for 2015*
- *NERA Decision no.2819/17.12.2014 approving the Development Plan of the National natural gas Transmission System in the period 2014-2023 .*

During 01.10.2014- 31.12.2014 Transgaz formulated legislative proposals (amendments) to the following regulations:

- Law no. 50 / 1991 on authorizing the execution of construction works; amendments were made to the Chamber of Deputies under no. 4C11 / 654 / 30.09.2014;
- Law no. 297/2004 on the capital market - amendments sent to the Ministry of Public Finance by letter no. 37904 / 15.10.2014, ie no. 49095 / 12.22.2015;
- Law no. 53/2003 Labour Code; amendments were sent to the Senate and the Ministry of Labor, Family, and Social Protection by letter no. 38070 / 10.16.2014.

In 2014, Transgaz has managed together with its specialists the specific regulation projects launched in a public debate NERA and has participated both at the revision activities of the Network Code provisions within the different joint committees and working groups with NERA and other involved institutions (*The Coordination/supervising committee of the activities regarding the provisions of the*

*Network Code; the Working group for the revision of the Network Code coordinated by ANRE; the Operative working group for the modification of the Network Code; the Joint working group TRANSGAZ-OMV PETROM-EXXON) and to the revision activity of the concession agreement.*

According to the regulatory framework applicable to the natural gas sector, Transgaz has obtained in 2014, the following authorizations:

- Authorization no. 14013/16.01.2014 for the designing of the objectives for the surface technical installations afferent to the natural gas production activity and / or storage (compression stations, connections, regulation-measuring stations and upstream pipelines) – type PP;
- Authorization no. 14014/16.01.2014 for the designing of the compressing stations, of the pipelines, connections and regulation-measuring stations afferent to the natural gas transmissionsystem, as well as the natural gas using installations, having the working pressure regime higher than 6 bar - type PCTRI.

The **European legislation and regulation department** within the company developed in 2014 the following actions:

***Follow-up, analysis and elaboration of some reports regarding the regulations in the legal documents issued by the European institutions (CE, ACER, ENTSOG) in the natural gas transmissionfield, which have an impact upon the activity of the company;***

***Elaboration of reports regarding the obligations of Transgaz according to the European regulations in the field, as follows:***

- Notification on the possible implications of running an open season binding process in order to obtain financing from EU based on the PCI status, according to the Regulation 347/2013;
- Comparative analysis on the implications of running a binding Open Season process vs. Market sounding process of obtaining EU funding;
- - Description, content and preparation of the Investment Request(including cross-border cost allocation request);
- Information on the provisions of the EU Regulation no. 312/2014 on establishing a network code for balancing gas transmission networks;
- Drawing up a report on the application of provisional measures (publication on TGN website and submitted for approval to NERA 15.10.2014);
- Analysis of EU Regulation no. 984/2013 on establishing a network code for capacity allocation mechanisms and TSO obligations;
- Information on the proposal to amend the EU Regulation no.984 / 2013;
-

	<ul style="list-style-type: none"> <li>- Develop an analysis on the stage of compliance with the transparency requirements related to gas transmission activity stipulated in the EC Regulation 715/2009, EC Decision 865/2010 and EC Decision 920/2011 amending Annex I to Regulation EC 715/2009;</li> <li>- Develop an action plan to be implemented by TGN in order to achieve the partially fulfilled and unfulfilled requirements, derived from Reg. EC 715/2009 and in Annex I;</li> <li>- Information on the status of TGN compliance to the transparency requirements, transmitted to the departments involved (operation &amp; IT);</li> <li>- Develop a synthesis of Regulation 1316/2013 on the establishment of the Connecting Europe Facility;</li> <li>- Develop the materials for the meeting Transgaz - EFET in 18 November 2014, according to the agenda: the development of interconnections, export restrictions, energy law, price liberalization process;</li> <li>- Information on obligations under art. 6 Reg. EU 984/2013 on the deadline to maximize technical capacity in the interconnection points (Csanodpalota);</li> <li>- Information on the final draft of incremental capacity, the document will amend Reg. EU 984/2013;</li> <li>- Information on the elaboration stage of the network code on transmission tariffs - market response after the public consultation process;</li> <li>- Information on updating the implementation of transparency requirements derived from Reg. EU no. 715/2009 (the official launch of the new transparency platform 1 October 2014).</li> </ul>
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***Ensuring the interface with NERA, Electric Power Department, Public Finances Ministry, Romanian Government Agent for the EU Court of Justice for the complete transposition and observing of the European regulations provisions:***

Modification proposals to the Law 123/2012 (the Electric Power and Natural gas Law);

Point of view regarding the technical appendix to the multilateral connections for the hydrocarbons transportation;

Support the development of the draft Regulation on capacity booking at future entry / exit points; transmission of the project to NERA for approval;

Identification of some solutions to allow Transgaz to take over, under concession and to operate the pipeline section Iasi – Ungheni;

Establishing the final solution on Transgaz leasing the pipeline and including it in the



NTS;
Support the development of the Cooperation Agreement and the Operating Agreement related to the interconnection pipeline between Transgaz and VESTMOLDTRANSGAZ;
Participation in a meeting held in November in Brussels to discuss and analyze the status of the project Iași - Ungheni; Romania attended the event, Moldova Republic and the European Commission;
Sending notifications stating the stage of completion of Transgaz' obligations underlying the unconditional certification (ISO model);
Correspondence concerning the requirements of Regulation 347/2013, notably the need to establish the " <i>competent authority</i> ", meant to facilitate the administrative and bureaucratic process related to the Projects of Common Interest;
Infringement procedure - failure to comply with the provisions of Reg. EC no. 1775/2005 on conditions for access to the natural gas transmission networks; The return to ED for the tripartite meeting for COM, RO, BG in order to agree a solution for releasing unused capacity in the interconnection point Negru Voda I;
Infringement procedure for failure to apply some provisions of Reg. EU no. 994/2010 on security of gas supply; transmission of the latest comments on the draft Regulation on the establishment of the interruptible customer for safety and its activation in emergency situations;
Involvement alongside FGSZ in the pilot RBP (Regional Booking Platform); first auction was held on 10.12.2014;
Involvement in the Black Sea gas project, RO - HU- AT; by December there were three coordination meetings between national regulatory authorities and transmission operators in the three states;
Develop the strategy for the access of the producers in the Black Sea to the NTS, to be officially presented within the Strategic Development Group.
<b><i>Management of the problems related to the infringement procedures initiated by the European Commission against Romania, with implications upon Transgaz</i></b>
infringement procedure for failure to comply with the provisions of Regulation (EC) no. 1775/2005 (replaced by Regulation (EC) no. 715/2009) on conditions for access to the natural gas transmission networks;
The infringement procedure regarding the export interdiction, action for noticing the failure to comply with the provisions in the Treaty on the European Union Functioning and of the Directive 2009/73/CE regarding the common standards for the internal market in the natural gas sector;
The infringement procedure for not applying some provisions of the Regulation (EU) no. 994/2010 regarding the measures to ensure the security of the natural gas supply and for the abrogation of the Directive 2004/67/CE.
<b><i>Management of the relationship with ENTSOG</i></b>
Ensure the interface with the structures of ENTSOG (administrative support – paying the membership fees, participation to the AGA and Board meetings, monitoring of the annual working programs, transmission of the relevant correspondence); Based on the Addendum to the Memorandum of Understanding signed during the 18th GAM ENTSOG of 11 June 2014 Romania together with Bulgaria will join the Board of

ENTSOG on 01 January 2016;
Monitoring the elaboration process at the level of ENTSOG of the network codes regarding the capacity allocation mechanisms, system balancing, tariffs, interoperability and transparency requirements; during 2014 the codes related to tariffs and interoperability were developed;
Provide the secretariate during the working groups established at Transgaz, participation in the internal process of aligning the regulations imposed by the Third Energy Package;
Information on the content and status of the relevant documents developed at the level of ENTSOG

### 3.1.2 The activity of natural gas transmission

**The activity of natural gas transmission** was regulated in 2014 by NERA through the Order no. 22/May 25<sup>th</sup>, 2012 on the approval of the *Methodology for the approval of prices and setting the regulated tariffs in the natural gas sector*.

During 2014 the regulated tariffs for the provision of natural gas transmission services via NTS were set based on the following regulations:

- **NERA Order no. 39/June 19<sup>th</sup>, 2013** applied for the period July 1<sup>st</sup>, 2013 – June 30<sup>th</sup>, 2014;
- **NERA Order no. 1/15<sup>th</sup> January 2014** regarding the establishment of the regulated tariffs for rendering the uninterruptible services for natural gas transmission through the National Transmission System in the period February 1<sup>st</sup> 2014-June 30<sup>th</sup> 2014.
- **NERA Order No.70 of 22 July 2014** on the approval of the regulated revenue, total revenue and transmission tariffs for natural gas transmission through the national transmission system for the period 1 July 2014-30 september 2015;
- **Order No. 80 of 14 August 2014** amending Annex No. 1 to the Order of the National Regulatory Authority for Energy No.70 / 2014 on the approval of regulated revenue, total revenue and transmission tariffs for natural gas transmission through the national transmission system for the period July 1, 2014 - September 30, 2015.

*On May 21st 2014 was published the ANRE Order No.32 on the approval of the Methodology for the establishment of the regulated income, the total income and the regulated tariffs in the natural gas sector.*

The total regulated revenue from the transmission activity is determined based on the abovementioned methodology, this total regulated income underlies the determination of the regulated tariffs for natural gas transmission by relating it to the booked capacities or the gas volumes transmitted.

The following elements are included in the structure of the total regulated income

- ✗ *operational costs* recognized by the authority (materials, energy and water, technological consumption, salaries, maintenance and repairs and others);
- ✗ regulated *amortization* of the assets related to the transmission activity;

- ✗ *pass through costs*, costs out of the control of the operator (NTS concession royalty, tax related to the transmission license, contributions related to the salaries fund, other taxes and charges);
- ✗ *regulated profit* determined by the application of the regulated rate of return on capital to the value of the regulated assets used for the transmission activity.

The substantiation of the regulated revenue is performed according to regulatory periods of 5 years (the present period is 1 July 2012-30 September 2017), and within the regulatory period, the annual adjustment of regulated revenue is realized according to the annual inflation rate reduced by the economic efficiency growth factor, the value of the fixed assets put into operation (by the related regulatory amortization and respectively the related regulated profit) and the achievement or failure to achieve the approved regulated revenue related to the previous gas year as follows:

- ✗ if in the previous year the regulated income achieved was higher than the approved one the difference is deducted from the regulated income of the following year;
- ✗ if in the previous year the regulated income achieved was lower than the approved one the difference is added to the regulated income related to the following year;

As a result of the regulation of the transmission activity according to the methodology mentioned above, the revenues from transmission cover the expenses incurred by them and enable the achievement of a regulated profit limited to 7.72% of the capital invested in this activity, namely 9.12% for the investment commissioned after 1 July 2012, according to NERA Order no. 23 / 11.06.2012.

**The main modifications to setting the income related to the transmission activity, performed by the NERA Order no. 32 versus the NERA Order no.22/2012 are the following:**

- Setting the annual increase rate of the economic efficiency for the natural gas transmission activity at the value of 3,5% for each year of the third regulation period, in the interval July 2014 – September 2017.
- From the fourth year of the regulation period (2012-2017) the starting date of the year within the periods is October 1<sup>st</sup>. Until the third year (2014-2015), the regulation year was starting at July 1<sup>st</sup>.
- Introduction of the following terms within the formula for the determination of the income:
  - ΔVA(i) – the amount allowed to be recovered in the year (i) from the amount approved by the Regulation Committee of ANRE, determined according to the legal in force provisions by compensating the unrealized incomes recognized by ANRE for the second regulation period with the cumulated amount of the efficiency bonuses obtained from the development of the natural gas transmission activity determined for each year of the second regulation period;
  - ΔCT(i) – the correction component of the technological consumption for the previous years.
- OPEX, including the technological consumption, is adjusted through the Order 22 with the inflation diminished with the annual increase rate of the economic efficiency; Through the Order 32, OPEX is similarly adjusted the without the

technological consumption, and the technological consumption **CT(i)** – is determined as the product between the quantity of natural gas afferent to the technological consumption established according to the legal in force provisions for the year (i-1) and the estimated purchase cost for the year (i).

According to the Order no. 32 for setting the RAB (x) at the beginning of the regulation period the RAB values from the previous period are not inflated with the cumulated rate of the inflation from the regulation period, as it was stipulated in the Order no. 22/2012.

## Modifications related to tariffs setting

The setting of **tariffs for capacity booking** by entry/exit points / groups of points grouped based on the “adjacent system type” criterion, respectively:

- The group of the entry points from the production fields, from the LNG terminals and from the biogas or other gases generation installations that comply with the quality conditions in order to be delivered / transmitted in / through the NTS;
- The entry points from the interconnection with other natural gas transmission systems;
- The group of the entry points from the underground storages;
- The group of the exit points to the distribution systems, the upstream pipelines and the final clients directly connected to the transmission system;
- The group of the exit points to the underground storages;
- The group of the exit points from the interconnection with other natural gas transmission systems.

Setting the types of services related to gas transmission for which capacity booking tariffs are set, that is:

- **Long term** natural gas transmission services:
  - Firm transmission services contracted for a natural gas year or multiple natural gas years;
  - Uninterruptible transmission services contracted for a natural gas year;
- **Short term** natural gas transmission services:
  - Firm / uninterruptible transmission services contracted for a quarter or multiple quarters, within the natural gas year;
  - Firm / uninterruptible transmission services contracted for a month or multiple months, within the quarter;
  - Firm / uninterruptible transmission services contracted for a natural gas day or multiple natural gas days, within a month.

Based on the above mentioned methodology new tariffs are approved (including capacity booking tariffs on entry-exit points) starting with 1 August 2014.

*On June 26<sup>th</sup> 2014 the **NERA Order no. 54** regarding some measures for the development of the natural gas market, established some measures regarding the obligation of the users to introduce until July 7<sup>th</sup> 2014, on the online platform, the capacity booking requests for long term firm services, and by quarters.*

Following this order, the contracts concluded for the natural gas year 2013-2014 were extended until the date of August 1<sup>st</sup> 2014 and the new tariffs according to the methodology approved through the Order 32/2014 were to be set and applied starting with August 1<sup>st</sup> 2014.

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

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

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

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

Through the transmission services contracted for the period January – December 2014 total amount of **126.703.188 MWh** (11.883.713 thousand cm) was transmitted out of which to:

- distributions: 70.745.615 MWh (6.629.595 thousand cm); -55,84%
- direct consumers: 44.776.626 MWh (4.202.995 thousand cm); -35,34%
- storage: 9.367.442 MWh (880.928 thousand cm); -7,39%
- reverse flow (Csanadpalota): 1.814.505 MWh (170.195 thousand cm) – 1,43%

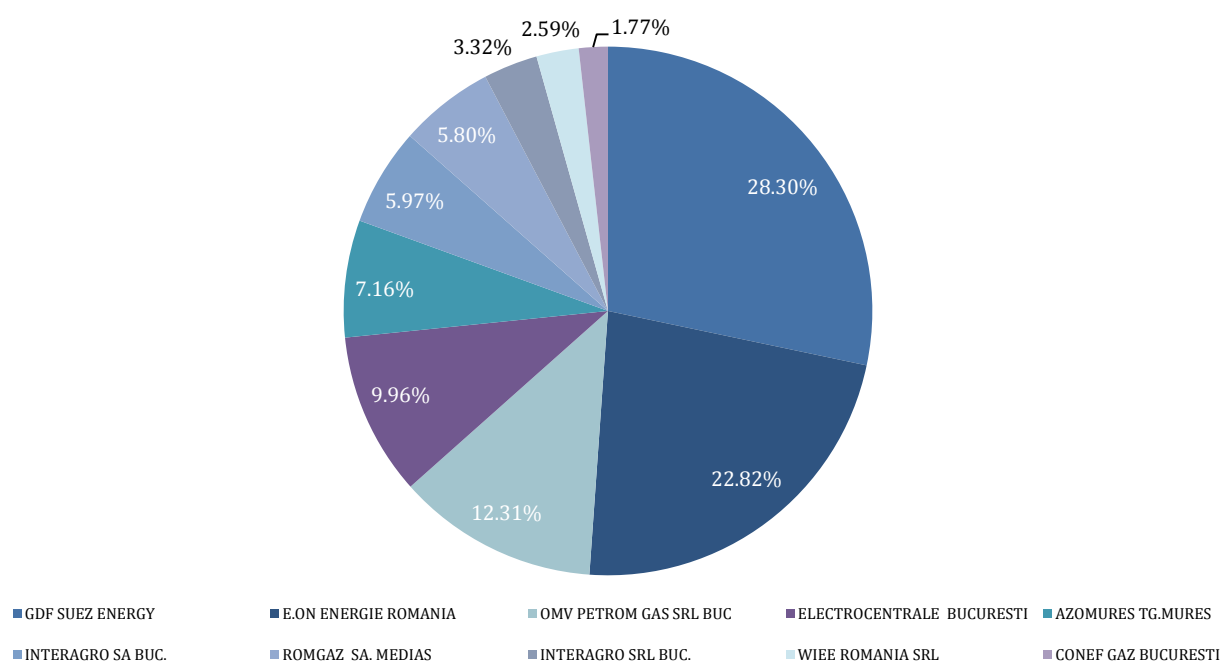
The share of the most important beneficiaries of the natural gas internal transmission service in 2014 is presented in the table below:

<b>The main users of NTS in 2014</b>	<b>Invoiced value without VAT [lei]</b>	<b>%</b>
GDF SUEZ ENERGY	346.381.378,81	28,30%
E.ON ENERGIE ROMANIA	279.352.184,46	22,82%
OMV PETROM GAS SRL BUC	150.612.713,36	12,31%
ELECTROCENTRALE BUCURESTI	121.914.945,92	9,96%
AZOMURES TG.MURES	87.649.215,05	7,16%
INTERAGRO SA BUC.	73.015.107,83	5,97%
ROMGAZ SA. MEDIAS	70.937.030,57	5,80%
INTERAGRO SRL BUC.	40.694.117,67	3,32%

WIEE ROMANIA SRL	31.697.603,88	2,59%
CONEF GAZ BUCURESTI	21.719.906,71	1,77%

*Table 20 - The share of the main users of the NTS in 2014*

In order to cover the losses from the NTS and for the own technological consumption in 2014 Transgaz purchased natural gas amounting to **1.046.481 MWh (96.940 thousands cm)** natural gas.



*Chart no.28 - The share of the main users of the NTS in 2014*

In compliance with the *ANRE Order no. 56/2014 on the approval of the level of the natural gas stock corresponding to SNTGN Transgaz SA* there were contracted services for capacity reservation in the underground storage facilities for maintaining on stock **212.000 MWh** of natural gas destined to ensure a balance in the system and its safe operation.

It is worth emphasizing the fact that in 2014, the **National Natural Gas Dispatching Center** performed a series of activities out of which we would like to mention the following:

The execution of the NTS topology was finalized and it shall underlie the implementation, through the SIMONE program, of the hydraulic calculation model for the NTS; thus out of the approximately 13.000 km of pipelines it resulted: 8486 topology points and 5938 pipeline sections with almost 3000 valves in which there are almost 1100 delivery points in the NTS, 150 entry points in the NTS, 45 TH

(technological hubs);
development of the calculation of the NTS's Linepack and use its value in predicting the gas needs in the NTS for the next day;
implementing the new calculation methodology of the technological gas consumption for the works performed in the NTS, for emptying and filling the pipeline, defects, accidents, etc;
completion of the research work entitled " <i>Methodology for determining and calculating software for the technological consumption and natural gas losses related to damages and the execution of works in the NTS</i> " included in the 2014 Research Programme and in collaboration with UPG-Ploiesti and the implementation of a standard methodology in Transgaz;
reviewing requests for the connection to NTS of third parties in terms of the technical capacity available and the system pressure to be achieved without jeopardizing the integrity of the NTS and developing the access sheets if the conditions for access to the NTS are met;
updating the technological hubs block schemes proposed for upgrading through the SCADA project and verification of the technical documentation related to the technological hubs in the sense of complying with the location of the flow meters and ensuring the scenarios for the flow through the upgraded hubs;
update the gas flows scheme between the technological hubs and define the balance areas based on the equipment through the SCADA project necessary for the implementation, through the SIMONE program for monitoring the differences between the quantities of gas received in / out of the NTS needed for locating losses;
Continue the implementation of " <i>Weather Information System for monitoring and optimizing gas flows in the NTS</i> " and <i>the quality of the consumption forecasting algorithm</i> ;
automatic data processing and display by programming;
Achievement of the technological hubs modelling in order to be integrated in the NTS topology;
development and testing of a SIMONE LP stationary calculation model at the level of a balance area, based on the topology achieved and SCADA data;
The National Dispatching Center has to assimilate the obligations related to the Network code;
continuous improvement of the procedure for determining the gas flow for the quality areas, in accordance with Annex 9 of the Code Network.

**Other important actions** related to the operation activity :

- The conclusion of the Capacity allocation agreement for the interconnection point Negru Vodă I and of the Capacity allocation agreement for the interconnection point Giurgiu – Ruse with Bulgartransgaz EAD from Bulgaria;
- Establishing the technical capacities on the physical entry/exit points NTS offered to the network users in order to book the capacity for the natural gas year 2014-2015 ;

- Definition and publishing of the transportation services offered by types of entry/exit points in the NTS;
- Finalizing the modification and completion proposal for the **Network Code for the National Transportation System** (stage I), according to the provisions of art. 4 (1) of the NERA President Order no. 54/26.06.2014, having as main objectives:
  - Attributing the network users the primary role regarding the balancing of the individual portfolios;
  - The introduction of the mechanisms related to the daily balancing of the individual portfolios (nomination/re-nomination, allocation, correlation procedures);
  - Introduction of the short term balancing products (natural gas transmission facility, storage flexibility in the pipes, intra-daily flexibility);
  - The active participation of Transgaz within the balancing actions through gas selling and buying, based on some merit orders;
- Participation on 10/11/2014 to the joint working meeting organized by NERA, with the relevant network users on the market, with the theme analysis of Transgaz' proposal to amend and supplement the **Network Code for the National Transmission System / Stage I** in accordance with art. 4 (1) of the NERA President Order no. 54 / 26.06.2014 (**Chapters nominations and allocations**), in which Transgaz argued that the ***establishment of a PVT for the natural gas market in Romania, designation of the PVT operator, selecting a market model based on the entry-exit system using PVT*** and highlighted the lack of such provisions in the legal and regulatory framework, without which its proposal to amend and supplement the Network Code for the National Transmission System / Stage I can not be implemented
- The draft of the ***Network Code for the National Transmission System / Stage II*** including the ***reformulation of the chapters on access to the system and capacity booking*** was developed and submitted by Transgaz based on Art. 4 para. (1) b) and paragraph. (3) included in the ANRE Order no. 54 / 26.06.2014 on measures for developing the natural gas market. The Structural elements developed within the draft NC/ Stage II is as follows: CAP.III- GENERAL TERMS AND CONDITIONS OF ACCESS TO THE ENTRY-EXIT SYSTEM: Preliminary requirements for the conclusion of ENTRY-EXIT type contracts; Prerequisites for the use of booked capacity at cross-border interconnection points (PIT); Capacity products; Marketing capacity products on the secondary market; Interruptible capacity; Overcoming booked capacity;
- submission to NERA for approval, the final version of the **Addendum to the capacity allocation Agreement for IP Csandapalota** agreed with FGSZ;
- Approval of Transgaz' Board of Administration of the ***Pilot project for early implementation of Regulation (EU) no. 984/2013 establishing a network code on capacity allocation mechanisms in the gas transmission systems and supplementing Regulation (EC) no. 715/2009 of the European Parliament and of the Council (CAM-NC)***, initiated in collaboration with FGSZ Zrt in Hungary;
- The signing of the ***Cooperation and TSO membership Agreement together with FGSZ as Regional Booking Platform Operator*** to implement the pilot project for early implementation of Regulation (EU) no. 984/2013 establishing a network code on capacity allocation mechanisms (CAM-NC) initiated in cooperation with the Hungarian FGSZ Zrt for providing bundled capacity at the Romanian-Hungarian



border based on auctions and carrying the first bundled **capacity auction in the Csanádpalota interconnection point** on 10/12/2014;

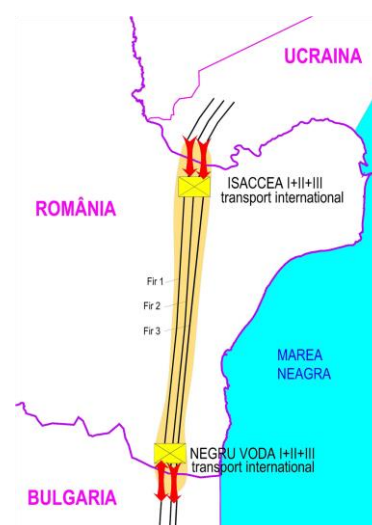
- Elaboration and starting of the negotiation of the **Operation agreement for the interconnection point Ungheni** with the transmission operator Vestmoldtransgaz from Moldavia;
- Data supplying (capacities, gas flows by rateable points) necessary for the analyses made in order to elaborate the **Methodology for setting the regulated income, the total income and the regulated tariffs for the natural gas transmission activity**, approved by the NERA President Order no. 32/21.05.2014;
- Agree the appendixes for the conclusion of the **Convention on setting the technological parameters related to the physical entry/exit points in the National natural gas transmission system** with the producers, distribution operators, storage operators, direct clients or their suppliers, according to the NERA President Order no. 79/30.10.2014 undelying the issuing of the Transmission contracts with the network users;
- **Actions regarding the fulfilment of the transparency requirements stipulated in the Regulation (EC) no. 715 /2009**
  - Checking data migrated to the new transparency platform PDWS that ENTSGO commissioned on 1 October 2014
  - Substantiation and submission to NERA for approval of the proposed revision of the relevant points of the NTS as a result of implementing virtual points approved by **NERA President Order no. 53 / 26.06.2014 amending and supplementing the Network Code for the National natural gas Transmission System**;
  - testing and implementing the new modules developed in the SAP in order to implement the relevant points approved by ANRE;
  - participation to the implementing actions of the transparency platform ENTSGO ;
  - the daily calculation of the imbalances and the monitoring of the main NU according to the provisions of art. 5 (3) of the NERA President Order no. 54/26.06.2014.

### 3.1.3 International natural gas transmission

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

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

This activity is conducted based on the three contracts concluded between Transgaz and Bulgargaz EAD (Bulgaria), respectively Gazprom Export (Russian Federation). The



legal framework for the conclusion of the contracts is represented by the following intergovernmental agreements:

*Fig.1- International natural gas transmission pipelines*

- ✎ *The Convention regarding the construction of a pipeline on the territory of the Socialist Republic of Romania (SRS) to ensure the gas transit from U.S.S.R. to the People's Republic of Bulgaria, signed on November 29, 1970;*
- ✎ *The Convention between the governments of S.R.R. and U.S.S.R. regarding the transit on the territory of S.R.R. of natural gas from U.S.S.R. to Turkey, Greece and other countries, signed on December 29, 1986;*
- ✎ *The Convention between the governments of Romania and the Russian Federation regarding the extension of the capacity of the natural gas transit pipelines on the territory of Romania, for increasing the supplies of natural gas from the Russian Federation to third party countries and to Romania, signed on October 25, 1996;*
- ✎ *The cooperation agreement in the energy sector concluded on October 29, 2002 between the Ministry of Energy and Energy Resources of Bulgaria and the Ministry of Industry and Resources of Romania.*

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

- Contract no. 10.726 of October 19<sup>th</sup>, 2005, concluded with **Bulgargaz EAD Bulgaria, (section I)** valid until December 31<sup>st</sup>, 2016;
- Contract no. 2102-06 of June 3<sup>rd</sup>, 1987 valid until December 31, 2011, extended by two addendums until **December 31<sup>st</sup>, 2015**;
- Contract no. 643/00157629/210247 of September 24<sup>th</sup>, 1999, valid until **December 31<sup>st</sup>, 2023**.

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

### **3.1.4 Other activities**

**Other activities** with a marginal contribution to the turnover of the company are mainly the sales of assets, rents and royalties.

### **3.1.5 Evaluation of the provision of natural gas transmission service**

Transgaz is the only transmission system operator in Romania. In the table below is presented the evolution of the provision of domestic and international natural gas transmission services for the 2014 compared to the year 2013.

Specifications	Results (thousands lei)		Dynamics (%)
	2014	2013	
Revenue from domestic gas transmission	1.340.853	1.210.480	+11%

Revenue from international gas transmission	273.760	268.537	+2%
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Table 21- Evolution of income from domestic and international natural gas transmission in 2014 vs 2013

The transmission of natural gas via NTS covers over 90% of the natural gas consumed in Romania and, therefore, it may be deemed that the company:

- does not deal with competition situations in the field;
- it is not significantly dependent on a client or group of clients in its portfolio.

## Results in 2014 versus results in 2013

The situation of the financial results as at December 31<sup>st</sup> 2014 as compared to results achieved in the similar period of the year 2013 is presented in the table below:

mii lei			
Name	Result 2013	Result 2014	Modifications
1	2	3	4=3/2x100-100
Operating revenue	1,516,640	1,655,319	9%
Financial revenue	40,721	33,375	-18%
<b>TOTAL REVENUE</b>	<b>1,557,361</b>	<b>1,688,694</b>	<b>8%</b>
Operating expenses	981,647	1,063,751	8%
Financial expenses	148,957	14,356	-90%
<b>TOTAL EXPENSES</b>	<b>1,130,604</b>	<b>1,078,107</b>	<b>-5%</b>
<b>GROSS PROFIT -total, of which:</b>	<b>426,758</b>	<b>610,587</b>	<b>43%</b>
· from operation	534,994	591,568	11%
· from the financial activity	-108,236	19,019	-118%
Tax on profit	95,350	108,071	13%
<b>NET PROFIT</b>	<b>331,408</b>	<b>502,516</b>	<b>52%</b>
Other elements of the comprehensive income	3,832	-16,131	-521%
<b>Comprehensive income related to the period</b>	<b>335,240</b>	<b>486,385</b>	<b>45%</b>

Table 22- Financial results in 2014 vs financial results 2013

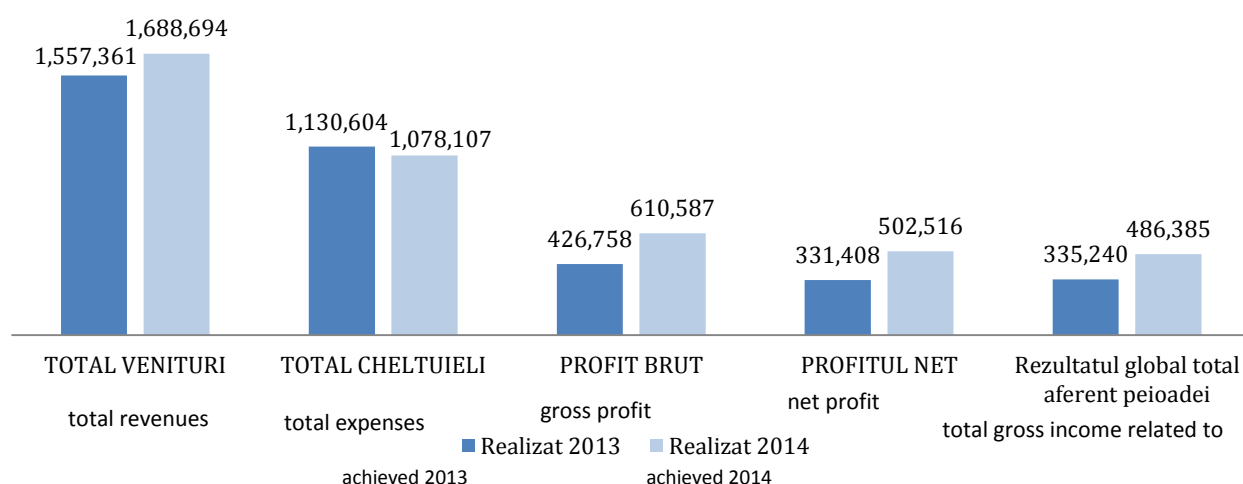


Chart 29 – Financial results in 2014 vs financial results in 2013 (thousand lei)

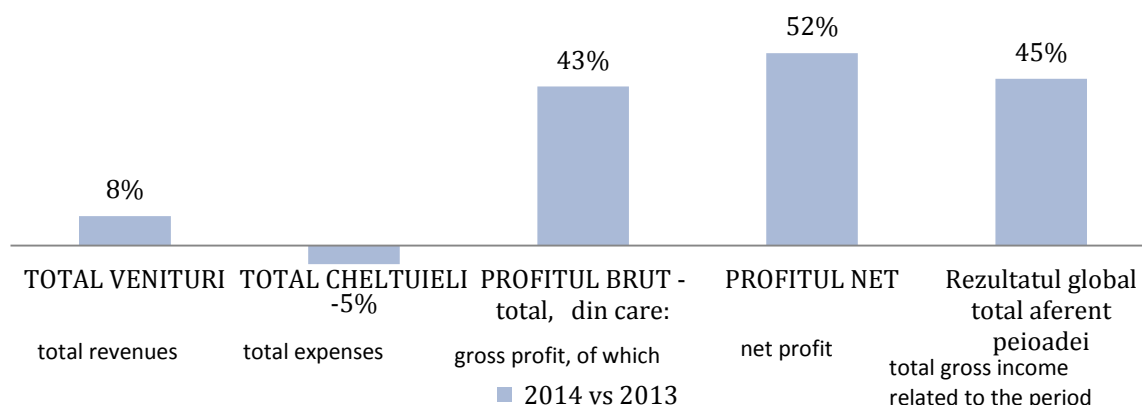


Chart 30 – Financial results 2014 vs financial results 2013 (%)

**The total revenue** registered in 2014 increased by 8% as compared with the results obtained in 2013, and an increase of **131.333 thousand lei** was recorded.

**The revenues were influenced mainly by the following factors:**

- the tariff for capacity booking increased as compared with 2013 by 0,25 lei/MWh, with a positive influence of **98.146 thousand lei**;
- booked capacity higher by 74.640.329 MWh because of the introduction starting with 1 August 2014 of capacity booking on entry-exit points with a positive influence of **77.029 thousand lei**;
- the invoiced gas quantity higher by 6.961.825 MWh/624.772 thousand cm (6%) on account of the gas transmitted for storage, with a positive influence of **51.681 thousand lei**;
- the volumetric component of the transmission tariff was lower by 0,76 lei/MWh, with a negative influence of **96.484 thousand lei**;
- financial revenues with a negative influence of **7.346 thousand lei** due to the financing of NABUCCO capital increase of euro 5 million in 2013.

**Total expenses** decreased by 5% as opposed to 2013, their level being by **52.497 thousand lei** lower.

**Operating expenses** increased by 8% as opposed to 2013, respectively by **82.104 thousand lei**.

**Excess of 107.355 thousand lei was recorded**, out of which the following items of expenditure are worth mentioning:

- 👉 royalty for NTS concession: 13.560 thousand lei;
- 👉 monopoly tax: 14.518 thousand lei;
- 👉 personnel expenses: 6.989 thousand lei;
- 👉 license granting charge: 6.722 thousand lei;
- 👉 depreciation of tangible and intangible assets: 4.413 thousand lei;

- ☞ other operating expenses: 58.853 thousand lei, mainly based on the adjustments for the current assets impairment. (44.905 thousand lei).

The company managed to compensate part of this negative impact by economies of **25.251 thousand lei** in the following expense elements:

- ☞ consumption and technological loss in the transmission system **3.376 thousand lei**, due to two factors:
  - the quantity of natural gas destined to technological consumption was lower than the one provided in the 12 months of 2013 by 615.860 MWh/63.200 thousands mc (37%), with a favourable influence of 35.381 thousands lei;
  - the average purchase price in 2014 was higher than the one provided in 2013 by 30,58 lei/MWh with a negative influence of 32.005 thousand lei;
- ☞ works and services performed by third parties: 9.424 thousand lei;
- ☞ ancillary materials expenses: 11.889 thousand lei;
- ☞ provisions for risks and charges: 7.869 thousand lei;

**The financial expenses** registered a decrease by **134.600 thousand lei** on account of the 132.591 thousand lei provision achieved in 2013 for the impairment of ownership structure of Transgaz to the share capital of Nabucco Gas Pipeline International GmbH, as a consequence of the fact that the Nabucco West project was not selected a gas transmission route:

- The amount of 110.671 thousand lei representing the contribution from Transgaz'own sources;
- The amount of 21.920 thousand lei representing the financing from the Shah Deniz consortium.

**Compared with the achievements on 31 December 2013 the gross profit achieved in 2014 is higher by 43% that is by 183.829 thousand lei.**

#### Achievements 2014 versus Budget 2014

The main economic-financial indicators achieved in 2014, as compared to the provisions of the Revenue and Expense Budget (REB) are presented in the table below:

*\*thousands lei\**

Name	REB 2014	Achieved 2014	Modification
1	2	3	4=3/2x100-100
Operating revenue	1,659,505	1,655,319	0%
Finanacial revenue	14,822	33,375	125%
<b>TOTAL REVENUE</b>	<b>1,674,327</b>	<b>1,688,694</b>	<b>1%</b>
Operating expenses	1,256,785	1,063,751	-15%
Financial expenses	9,433	14,356	52%

<b>TOTAL EXPENSES</b>	<b>1,266,218</b>	<b>1,078,107</b>	<b>-15%</b>
<b>GROSS RESULT (row 3.- row 6.), of which:</b>	<b>408,109</b>	<b>610,587</b>	<b>50%</b>
<i>From operation</i>	402,720	591,568	47%
<i>From the financial activity</i>	5,389	19,019	253%
Tax on profit	66,978	115,377	60%
Tax on deferred profit	5,281	7,306	38%
<b>NET PROFIT</b>	<b>341,131</b>	<b>502,516</b>	<b>47%</b>

Table 24– Financial Results 2014 vs Buget 2014

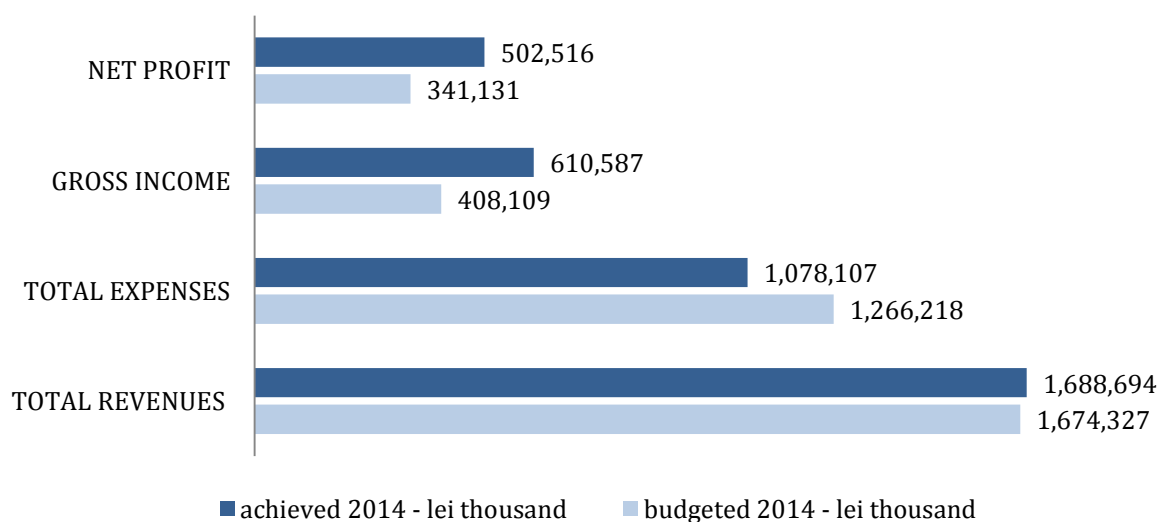


Chart 31 – Achieved vs Budget year 2014-thousand lei

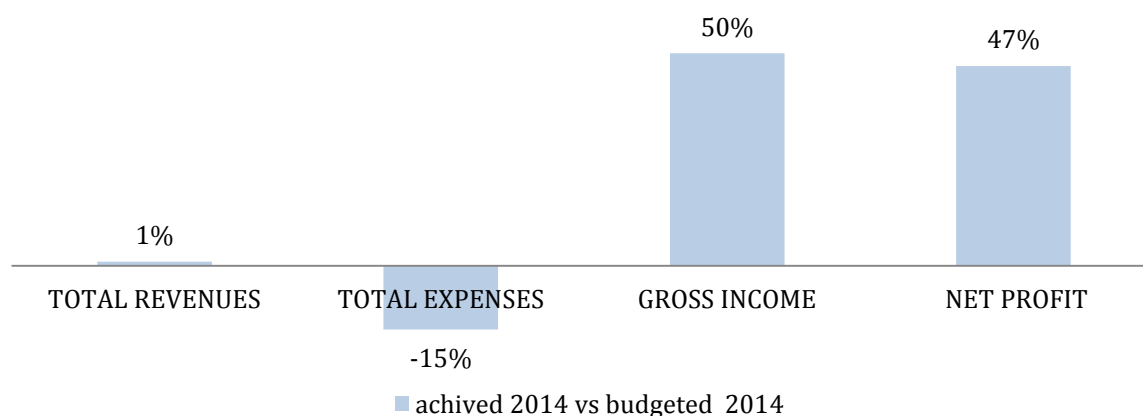


Chart 32 – Achieved vs Budget year 2014 (%)

**The total revenues** are almost equal to the ones provided in the REB, registering an increase of **14.367 thousand lei**.

**The revenue was influenced by the following factors:**

- The natural gas transmission services recorded a decrease of **17.489 thousands lei** determined, mainly by
  - *the booked capacity* higher by 0,070lei/MWh//h compared to the planned one, with a positive influence of **27.054 thousand lei**;
  - *the lower gas quantity transmitted* compared to the planned one by 6.511.781 MWh /683.737 thousand cm (5%) with a negative influence of **45.212 thousand lei**;
  - *volumetric transmission tariff* lower than the planned one by 0,281 lei/MWh, with a negative influence of **35.621 thousand lei**;
  - *the booked capacity* higher by 29.842.527MWh with a positive influence of **36.290 thousand lei**;
- The revenue from international natural gas transmission services recorded an increase of **6.113 thousands lei** due to the variation of the exchange rates of the currencies provided in the contracts;
- The financial revenue recorded an increase from **18,553** thousand lei compared to the REB, due to receipt of an advance payment from the liquidation of NIC, advance in the amount of 959.350,39 Euro and the reconciliation of amounts paid into an escrow account by the Shah Deniz consortium, amounting to 1.468.500 Euro.

**The total expenses** are **15%** lower as compared to the approved plan, their level being lower by **188.111** thousand lei than the provisions of the REB.

**The operating expenses** are **15%** lower as compared to the REB approved, that is **193.035** thousand lei.

**Savings amounting to 233.379 thousand lei were recorded**, mainly under the following expenditure items:

- ☞ consumption and technological loss of natural gas in the transmission system **108.760** thousand lei, due to two factors:
  - the quantity of natural gas destined to the technological consumption is lower than the one provided in the program by 1.048.080 MWh/100.600 thousand cm (50%), with a favourable influence of 100.519 thousand lei;
  - the average purchase price is lower by 7,87 lei/MWh than the one provide in REB with a negative influence of 8.241 thousand lei;
- ☞ works and services performed by third parties: 77.145 thousand lei;
- ☞ tax and charges: : 7.559 thousand lei,
- ☞ expenditures with the provision for risks and expenses: 4.352 thousands lei.
- ☞ depreciation: 1.728 thousand lei

**Exceedings amounting to 40.344 thousands lei were recorded**, mainly under theoperating expenses (adjustments for the impairment of the current assets).

**The financial expenses** are higher as compared to the level provided in the REB by **4.923** thousand lei on account of the expenses related to the impairment of the financial assets. .

**The gross profit is 50% higher than the one provided in the management plan, its level being higher by 202.479 thousand lei above the provisions of the REB, and the net profit higher by 47%, namely by 161.385 thousand lei above the planned one.**

### Achievements 2014 versus Management Plan 2014

The main economic-financial indicators achieved in 2014, as compared to the management plan of SNTGN Transgaz SA for 2014 approved by the Resolution of the GSOA no.9/September 23<sup>rd</sup> 2013 are presented in the table below:

*\*thousands lei\**

*\*mii lei\**

Name	Management Plan 2014	Achieved 2014	Dinamics
Operating revenues	1,645,674	1,655,319	1%
Finanacial revenues	20,701	33,375	61%
<b>TOTAL REVENUES</b>	<b>1,666,375</b>	<b>1,688,694</b>	<b>1%</b>
Operating expenses	1,249,466	1,063,751	-15%
Financial expenses	12,794	14,356	12%
<b>TOTAL EXPENSES</b>	<b>1,262,260</b>	<b>1,078,107</b>	<b>-15%</b>
<b>GROSS RESULT</b> (row3.- row6.), of which:	<b>404,115</b>	<b>610,587</b>	<b>51%</b>
↳ from operation	396,208	591,568	49%
↳ from the financial activity	7,907	19,019	141%
<b>Tax on profit</b>	<b>68,205</b>	<b>115,377</b>	<b>69%</b>
<b>Revenues for the tax on deferred profit</b>	<b>3,960</b>	<b>7,306</b>	<b>84%</b>
<b>NET PROFIT</b>	<b>339,870</b>	<b>502,516</b>	<b>48%</b>

Table 24- Results 2014 vs Management plan 2014

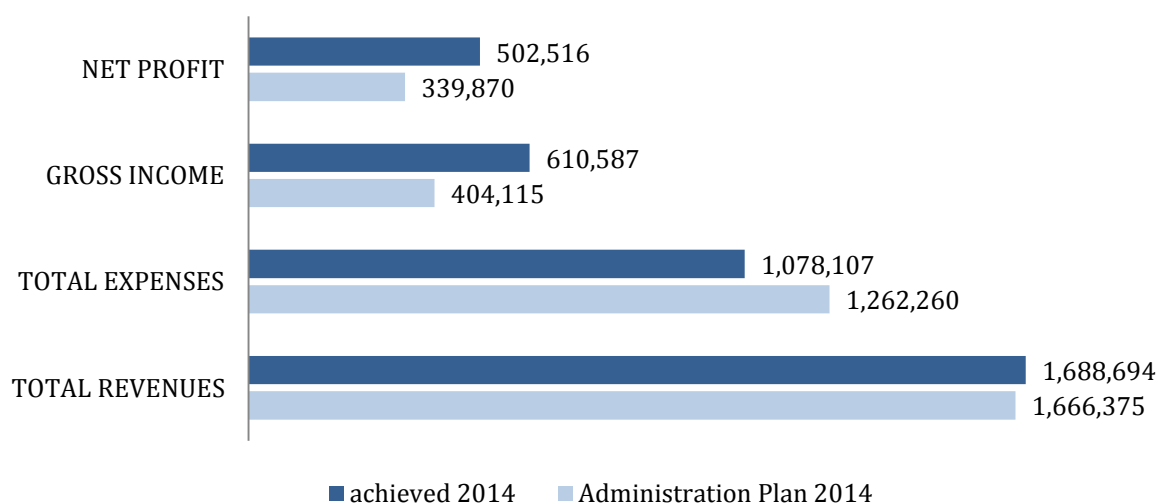
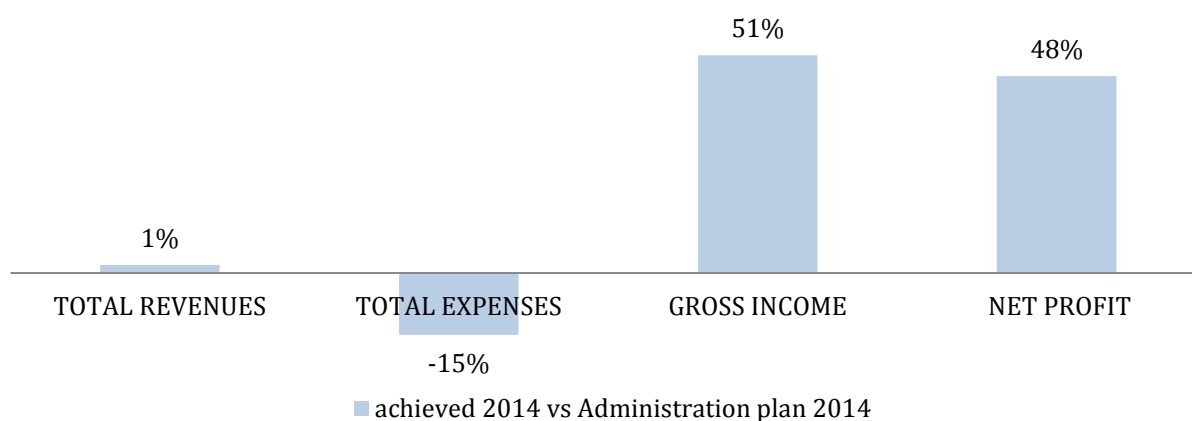


Chart 33 - Results 2014 vs Management plan 2014





*Chart 34– Results 2014 vs Management plan 2014 (%)*

**The total revenue** is almost equal to the one stipulated in the management program, recording an exceed of **22.319 thousands lei**.

**The revenues were influenced by the following factors:**

- The natural gas transmission services recorded an increase of **12.687 thousand lei** determined, mainly, by the booked capacity higher by 8.481 MWh/h in relation to the plan and of the capacity booking on entry-exit points and the higher gas quantities transmitted by 5.645.497MWh in relation to the plan, on account of the gas transmitted for storage;
- The revenue from international natural gas transmission services recorded an increase of **2.879 thousands lei** due to the exchange rates variations of the currencies provided in the contracts ;
- The other operating revenue recorded an unfavourable difference amounting to **5.921 thousands lei**;
- The financial income recorded an increase as compared to the level provided in the management plan, amounting to **12.674 thousands lei** On account of the amounts from the liquidation of the company Nabucco Gas Pipeline International GmbH.

**The total expenses** for 2014 are **15%** lower as compared to the level provided in the management plan, their level being lower by **185.715 thousands lei**.

**The operating expenses** are 15% lower as compared to the level provided in the management plan.

*Savings amounting to 250.489 thousand lei were recorded, mainly under the following expenditure items:*

- ☞ consumption and technological loss of natural gas in the transmission system 128.018 thousand lei, due to two factors:
  - the quantity of natural gas destined to the technological consumption is lower than the one provided in the program by 1.512.629 MWh, with a favourable influence of 130.121 thousands lei;
  - the average purchase price is higher by 2,01 lei/MWh with a negative influence of 2.103 thousand lei;

- 👉 works and services performed by third parties: 79.623 thousand lei;
- 👉 expenditures with the provision for risks and expenses: 6.713 thousand lei.

*Exceedings amounting to **64.774 thousand lei** were recorded, mainly under the following expenditure items:*

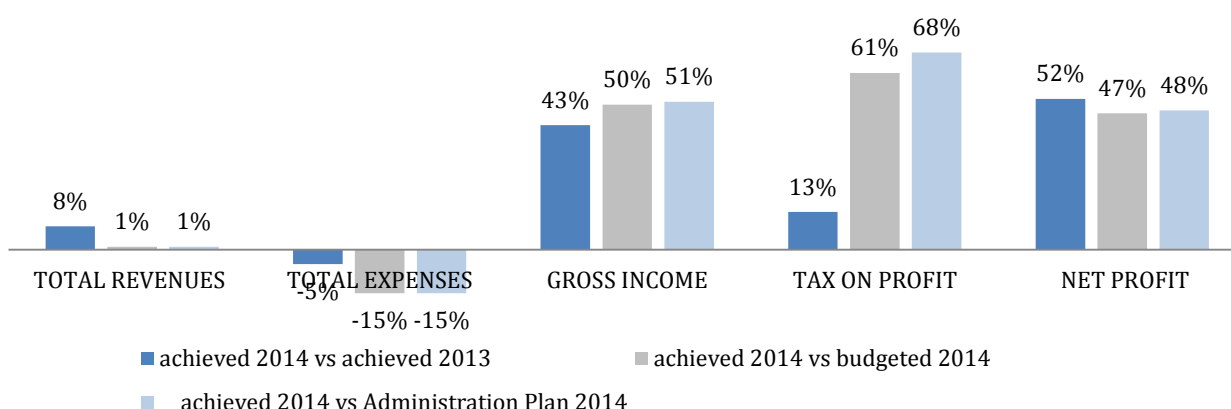
- 👉 taxes and duties: 16.237 thousand lei;
- 👉 royalty for NTS concession: 1.557 thousand lei;
- 👉 other costs from operations: 46.980 thousand lei.

**The financial expenses** are higher as compared to the level provided in the management plan by 1.562 thousand lei.

**The gross profit** is **51%** higher than the one provided in the management plan, its level being higher by **206.472 thousand lei**, and the **net profit by 48%**, namely by **162.646 thousand lei**.

	Achieved 2014 vs Achieved 2013	Achieved 2014 vs REB 2014	Achieved 2014 vs Management Plan 2014
TOTAL REVENUES	8%	1%	1%
TOTAL EXPENDITURES	-5%	-15%	-15%
GROSS RESULT	43%	50%	51%
Profit tax	13%	61%	68%
NET PROFIT	52%	47%	48%

**Table 25- Results 2014 vs results level in 2013, REB 2014, Management plan 2014 (%)**



**Chart 35- Results in 2014 vs results level in 2013, REB 2014, Management plan 2014 (%)**

### **3.1.6 Evaluation of the research and design activity**

The activity of the research and design division was carried out in 2014 on two directions: design and scientific research.

#### **A. Design activity**

##### **▪ Drawing up design works within the Design and Research Department**

During 2014, 234 design works were performed within the division, out of which: submitted for approval to TEC Transgaz, 133 works, with a total value of the investment amounting to **4.894.837.115 lei**, as follows:

- 14 Solution Studies with a value of 4.768.635.221 lei;
- 94 investment works with a value of 108.364.970 lei;
- 16 maintenance works with a value of 11.887.870 lei;
- 9 works for access granting to the NTS with a value of 5.949.054 lei;

the rest of the works are in different development stages.

Important works undertaken in 2014:

- „Pre-feasibility study regarding: central gas transmission corridor –the Isaccea-Onesti-Bacia-Horia section;
- Pre-feasibility study regarding the Interconnection between the NTS and the transit system
- Feasibility study for: The development on the territory of Romania of the National natural gas transmission system on the route Bulgaria-Romania-Hungary-Austria.
- Feasibility study regarding: The gas transmission pipeline Black Sea shore – Podisor;
- Feasibility study regarding: Development of the transportation capacity of NTS in order to assure the natural gas flow on the direction Romania – Moldavian Republic.
- Feasibility study regarding the gas transmission pipeline Gherăiești-Lețcani;
- Reverse flow Ukraine – necessary modifications to be executed in GMS Isaccea I and GMS Isaccea II in order to deliver gas to Ukraine;

At the same time, during 2014, technical assistance was provided for the works under progress. The most important works are:

- "The interconnection pipeline Ungheni-Iași" providing the interconnection of natural gas transmission systems of Romania and the Moldavian Republic,
- „The technological nodes related to the stage III of the project SCADA”,
- Surveillance of the design works developed by third parties after the subsequent contracts concluded.

Out of 63 design works, 32 works were endorsed by the TEC and the rest are in different development stages.

#### **B. The scientific research activity**

The scientific research activity was carried out according to the **Scientific Research, Technological Innovation and Standardization Program for 2014**. It includes 18

research themes, out of which 5 were carried out in the period 2011-2013, and the other 13 were new themes for 2014.

During 2014 four research themes, contracted in 2013, were finalized and approved in the amount of 355.500 lei. For two other research themes collaboration agreements were signed in August. One of the two being finalized and it shall be endorsed.

The research theme regarding *"The risk analysis when establishing the safety distances for the objectives nearby the natural gas transportation pipelines"* was contracted. The contract value is of 87.000 lei.

Within the department, the theme regarding the elaboration of technical requirements, has been continued, when designing the technological installations related to the NTS.

In addition, activities related to the initiation of new solutions for the research theme were conducted, on the assimilation of the electric micro-generators actuated by pneumatic engines and on the research theme: *checking the behaviour of the gas transmission pipelines to seismic trials*". In order to achieve the correction theme the tender procedures were initiated. Two research themes from the program for the year 2014 were inserted on the projects list of SNTGN Transgaz with potential financing from European sources.

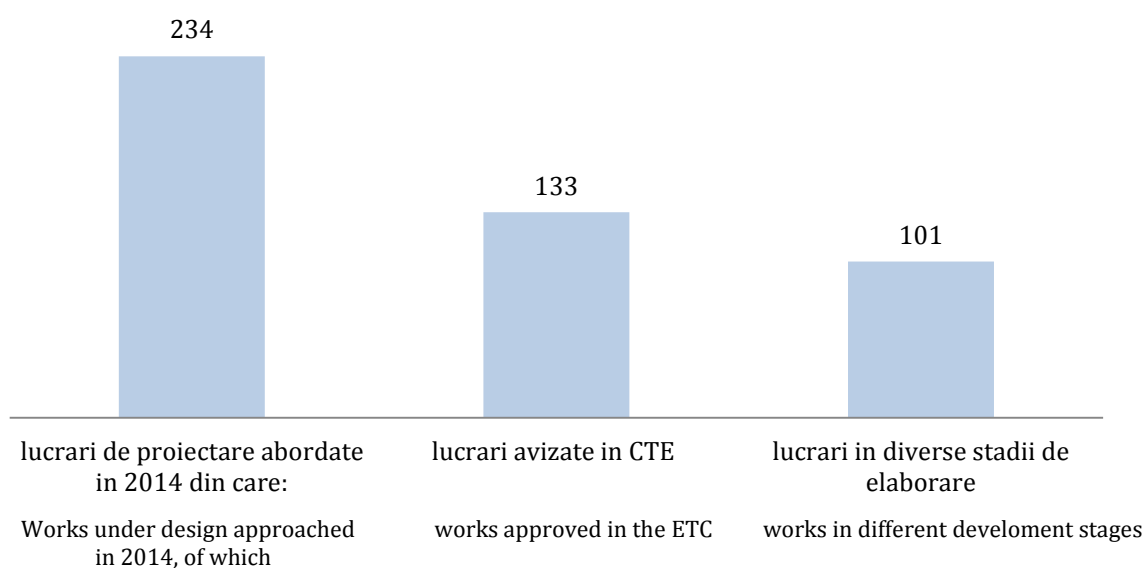


Chart 36- The Number of design works approached and endorsed in the TEC Transgaz in 2014

### 3.1.7 Evaluation of the procurement activity

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

At the foundation of the **Annual Program of the Public Procurement 2014 (P.A.A.P. 2014)** the necessary of works, products and services, were calculated as they are contained in the **Program for upgrading, Investments development, Rehabilitation program and Maintenance services assurance** as well as in the **Program** regarding

**other services executed by third parties** and the **Supply program**, in the form they have been approved through the H.C.A. no. 26/23.12.2013.

The program contains **the totality of the contracts/frame agreements** that SNTGN Transgaz SA Medias intended to **attribute/conclude during the year 2014**. As well as **the procedures started in 2013**, which, until the end of the year, **have not been attributed/not finalized** have been kept in the program for the year 2014 with the mention that they are **under development**.

The total value of the **Annual Program of the Public Acquisitions for the year 2014**, approved by **H.C.A no. 1/2014** was of **1,10 bln lei** ( equivalent of 243,3 mill. Euro) out of which **the estimated value of the contracts that will be attributed through acquisition procedures** based on the P.A.A.P. 2014 was of **1,07 bln lei** (equivalent of 237,1 mill. euro), and the estimated value of **the direct Procurement** , is of **0,028 bln Lei** (equivalent of 6,2 mill. euro).

**Upon the 32 rectifications/updates** of the Annual Program of the Public Procurement for the year 2014 that became necessary due to the revision of the execution programs on which is based the foundation of R.E.B, **the total value of the Annual Program of the Public Procurement for the year 2014** has become **1,23 bln Lei** (equivalent of 273,9 mill. Euro). From the total value mentioned for the section **acquisition procedures** the estimated value is of **1,21 bln Lei** (equivalent of 268,1 mill. euro), and the estimated value of the **direct Procurement** is of **0,027 bln Lei** (equivalent of 5,9 mill. euro).

#### **PROCUREMENT PROCEDURES:**

Based on the provisions of the P.A.A.P. 2014 (procedures section, updated) respectively from **304 active positions** (less the relocated ones, but including the new entries), upon the requests of the interested departments/directions/services **191 procedures have been initiated out of which 154 were finalized**, 37 procedures are under development, in different stages.

**From a physical point of view** of the total number of procedures stipulated in the updated P.A.A.P., **the execution percentage is of 50,66%**, and **from the value point of view the execution degree is of 20,16%**. In percentage, the procedures that are under development represent 12,17 % from the total positions in the plan. The situation of the execution of the procurement procedures is as follows:

<b>Procedures summary (physical)</b>		
<b>Total positions at 31.12.2014, out of which:</b>	<b>304</b>	% achievement from P.A.A.P (procedures sections)
- started	37	12,17%
- executed	154	50,66%
- not started (under development)	6	1,97%

DAPC)		
- not requested	107	35,20%

<b>Procedures summary (value)-lei</b>		
<b>Total value at 31.12.2014, out of which:</b>	1.251.347.414,00	% achievement from P.A.A.P (procedures sections)
- started	174.095.153,00	13,91%
-achieved	252.251.647,38	20,16%
- not started (under development DAPC)	3.500.687,00	0,28%
- not requested	644.616.305,00	51,51%

*NOTE: The percentage for the executed procedures represents the final realized value reported to the total estimated value; and for the started, but not finished ones and for the not started ones represents their estimated value reported to the total estimated value (this is why the amount of the percentages is less than 100% afferent to the value differences between the estimated values and the awarded ones)*

For the 154 positions from PAAP, procedures section, the situation of the achievements as compared to the estimated ones is as follows:

<b>No.positions from PAAP</b>	<b>Estimated value - lei</b>	<b>Achieved value-lei</b>	<b>Achievement percent %</b>
154	384.135.268	252.251.647	65.66%

**THE TOTAL SITUATION OF THE CONCLUDED CONTRACTS** (including, as well, the subsequent contracts granted based on the frame agreements) is briefly presented in the next table:

<b>Contract type</b>	<b>Total value of the contracts</b>	<b>Number of granted contracts/ Frame agreements</b>	<b>Out of which, no. of subsequent contracts</b>	<b>Value of the subsequent contracts</b>	<b>Value of the continuously developed contracts from the PAAP 2013</b>	<b>Results value from the PAAP</b>
	(lei without TVA)			(lei without TVA)	(lei without TVA)	(lei without TVA)
<b>Works contracts</b>	155.100.408,44	53	8	2.311.014,23	4.695.000,00	148,094.394,21
<b>Services contracts*</b>	79,299.169,32	152	75	14.228.706,65		65.070.462,67
<b>Products contracts</b>	44.160.678,93	66	16	5.073.888,43		39.086.790,50
<b>TOTAL CONTRACTS</b>	278.560.256,69	271	99	21.613.609,31	4.695.000,00	252.251.647,38

\* The total value of the services includes the related value of "Professional formation(1.449.225,50 lei), and the Press and Magazines Subscription"(168.469,32 lei) and "Plane tickets procurement services, accomodation, etc" (1.461.786,71 lei).

Table 26 – Situation of the contracts concluded through acquisition procedures during 01.01 - 31.12. 2014

### **DIRECT PURCHASES:**

Based on the provisions in Appendix 1 to the P.A.A.P. updated, namely out of 655 **active positions** (less the relocated ones, but including the new entries) and upon the requests of the interested departments/directions/services **460 direct purchases have been initiated** out of which **457 direct purchases** were finalized. **From the physical point of view** of the total number of direct Procurement from the approved program **the execution percentage of the direct purchases is of 69,77%**, and **the value is of 36,36%**.

<b>Direct purchases summary (physical)</b>		
<b>Total positions at 31.12.2014, out of which:</b>	<b>655</b>	<b>% achieved direct purchases</b>
- started	3	0,46%
- achieved	457	69,77%
- not started (under development at DAPC)	0	0,00%
- not requested	195	29,77%

<b>Direct purchases summary (value)</b>		
<b>Total value at 31.12.2014, out of which:</b>	<b>26.500.329,00</b>	<b>% achieved direct purchases</b>
- started	97.200,00	0,37%
- achieved	9.839.700,98	37,13%
- not started (under development at DAPC)	0,00	0,00%
- not requested	9.817.045,00	37,04%

*NOTE.* The percentage of direct purchases represents the final value achieved related to the total estimated value; and for the initiated but not completed ones their estimated value reported to the total estimated value (therefore the sum of percentages is less than 100% related to the differences in values from estimated to awarded)

For the 457 positions in PAAP, Annex 1 – Direct purchases, the situation of the achievements as compared to the estimated values, exclusively for these is presented as follows:

<b>No.positions from PAAP</b>	<b>Estimated value - lei</b>	<b>Achieved value-lei</b>	<b>Achievement percent %</b>
457	16.455.127	9.839.701	59.79%

## The total situation of the direct purchases

Based on the provisions in Appendix 1 to the P.A.A.P. updated, and upon the requests of the interested departments/directions/services in the period 01.01-31.12.2014 is briefly presented in the next table:

Contract type	Total value contracts/ Orders	Number of public procurement contracts	Value of public procurement contracts	Direct purchase orders number	Direct purchase orders value	Orders number Procurement Service at 31.12.2014	Value of direct Procurement Service at 31.12.2014
	(lei without TVA)		(lei without TVA)		(lei without TVA)		(lei without TVA)
Works	1.446.594,76	13	1.397.055,66	3	49.539,10	0	0,00
Services	3.253.826,44	66	2.988.525,31	53	265.301,13	0	0,00
Products	5.734.167,23	7	474.106,67	57	2.100.633,97	322	3.159.426,59
<b>TOTAL CONTRACTS</b>	<b>10.434.588,43</b>	<b>86</b>	<b>4.859.687,64</b>	<b>113</b>	<b>2.415.474,20</b>	<b>322</b>	<b>3.159.426,59</b>

*Table 27 - Situation of the contracts concluded through direct purchases during 01.01 - 31.12.2014*

Contracts and orders for SERVICES that are not contained in the PAAP- 454.976,18 lei;  
Contracts and orders for PRODUCTS that are not contained in the PAAP- 139.911,26 lei;  
The Contract 35/04.02.2014 - "Integration SCADA" (services contract) in amount of 115.817,24 lei is contained in the PAAP at Chap. C - Products, position 359

Direct Procurement Services reported to the Supply service in the amount of 3,159,426.59 lei for 322 positions in PAAP 2014 were achieved under the delegation of powers to regional offices under Decision no.263 / 17.04.2014 as amended by Decision no.411 / 10.6.2014.

### **3.1.8 Procurement and disposals of assets**

Except for the acquisition of assets necessary to carry out and develop the activity, as well as for the assets taken out of service under the law, the company recorded no other similar operations in 2014.

### **3.1.9 Internal and external audit of the company's activity**



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

The first Internal Audit Plan was implemented in 2008. Since then, annual audit plans have been developed for each financial year.

In addition to the annual plans, the internal audit structure develops multiannual plans, for 3 calendar years, according to the Law no.672 / 2002, art.13.let.b. The analysis of the risks related to the entity's activities are carried out at the end of each calendar year by the structure internal audit, as provided by Law no.672 / 2002, Article 16, paragraph 1.

The audit of the financial situations was performed by the auditors at "Pricewaterhouse Coopers Audit SRL" (PwC).

### ***3.1.10 Evaluation of the human resources and social dialogue activity***

On 31<sup>st</sup> December 2014, SNTGN Transgaz SA had 4,820 employees with individual employment contracts, of which 4,792 for an indefinite period and 28 for a definite period.

The number of employees at the end of 2014 is down by 81 people compared to that at the end of 2013, the policy of reducing the number of staff in line with the retirements being continued in 2014. In 2014 there were 157 retirements from SNTGN Transgaz S.A.

Parallel to this, in 2014 the organizational redesign of some activities in the company was made and of the duties and responsibilities of the personnel performing these activities. In the last quarter of the year the activity of the Information and Communication Technology Directorate was reorganized by setting up the Information Technology, Communications and SCADA Department.

During the year 2014 there was a focus on the selection of the staff needed for the implementation of the SCADA and "Black Sea" projects as well as for accessing European funds activities and project analysis, verification and endorsement activities. Both the company's employees and external specialists were selected in this regard.

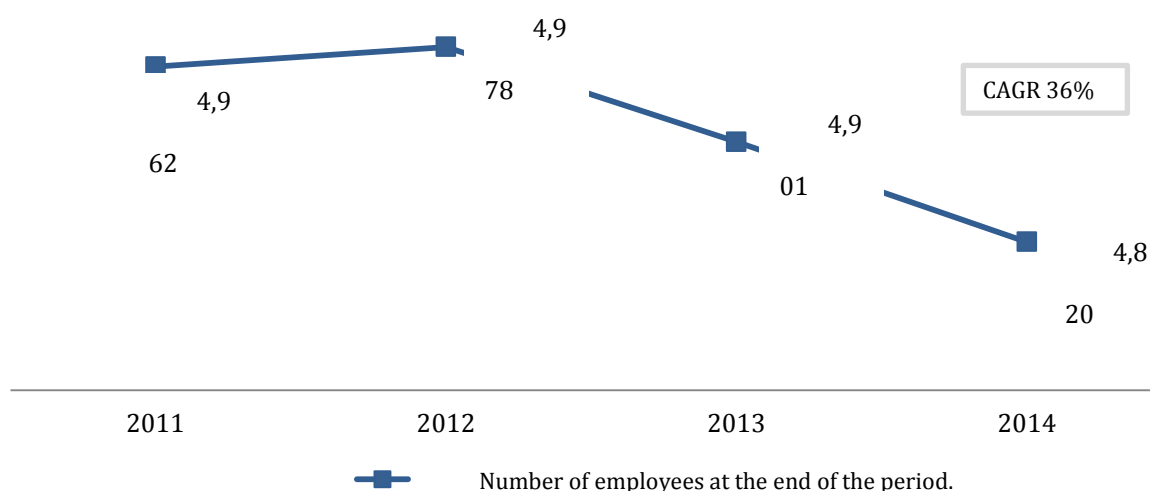
In order to improve the use of qualified personnel for performing the duties entirely in the new working conditions, according to the Management Plan of SNTGN TRANSGAZ S.A. 2013-2017, it aims at developing the normative with the time rules and the standardization of the personnel for the operation, interventions and maintenance of the NTS and the related facilities.

The first step namely the identification of the technical works to be performed on the operation, interventions and maintenance of the NTS was carried out in 2014. For the second stage there is an ongoing purchase procedure for the services needed for the development of the "normative including time rules and the standardization of the personnel for the operation, interventions and maintenance of the NTS and the related facilities".

The evolution of the number of the company's employees during the period 2011 -2014 is presented in the table below:

Specification	2011	2012	2013	2014
Number of employees in the beginning of the period	4,970	4,962	4,978	4,901
Number of new employees	114	117	65	120
Number of persons who have ceased employment with the company	122	101	142	201
<b>Number of employees at the end of the period</b>	<b>4,962</b>	<b>4,978</b>	<b>4,901</b>	<b>4,820</b>

Table 28 - Evolution of the number of employees during the period 2011- 2014

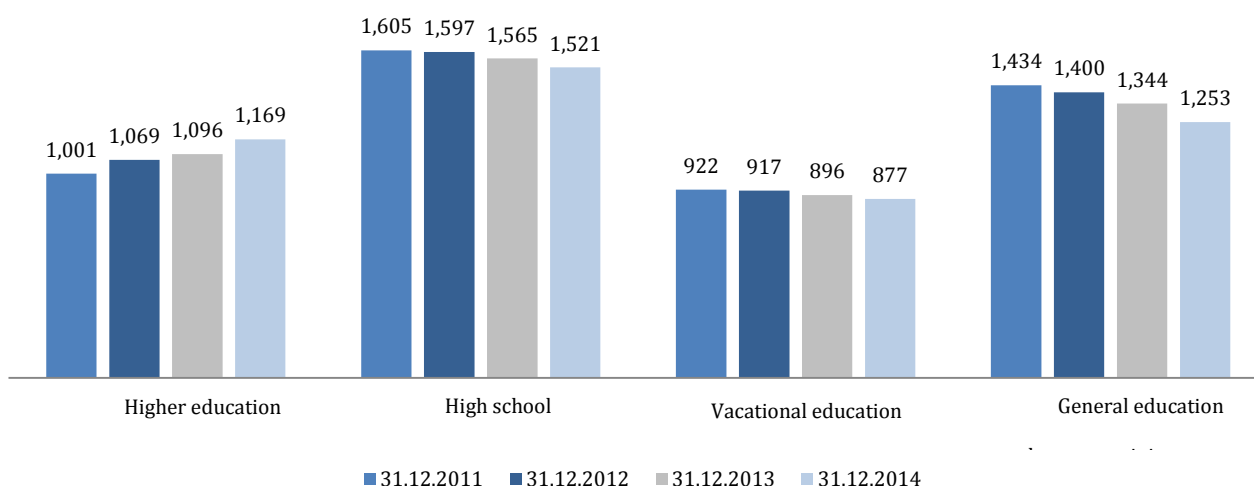


Graph 37 - Evolution of the number of employees during the period 2011- 2014

The evolution of the staff structure per education category reveals the company's interest to cover staffing needs by employing highly qualified specialists and by the continuous improvement of the existing staff, the trend towards increasing the number of employees with higher education in parallel with the decrease of employees with high school education and the number of employees with general education and training courses is obvious:

Item no.	Category	31.12.2011	31.12.2012	31.12.2013	31.12.2014
1	Higher education graduates	1,001	1,069	1,096	1,169
2	High school graduates	1,605	1,597	1,565	1,521
3	Vocational education graduates	922	917	896	877
4	General education graduates + training course	1,434	1,400	1,344	1,253
*	<b>TOTAL employees</b>	<b>4,962</b>	<b>4,978</b>	<b>4,901</b>	<b>4,820</b>

Table 29 - The evolution of the staff per education category between 2011- 2014



*Chart 38 - The evolution of staff per category of study between 2011- 2014*

The training, retraining and professional development of the employees within the company was made based on the Training plan developed at company level, in line with the provisions of the Collective Labour Contract in force at this level.

Thus, in 2014 there were training and retraining courses organized with external trainers in the country, for 977 employees in trades specific to the company's field of activity. In the same period, a total of 236 employees participated in courses organized by external trainers from abroad. Through our own training and formation centre a total of 95 employees were trained in 2014 in the occupations for which we hold a CNFPA (The National Trainer's Training and Retraining Centre) certification as follows:

- 55 operators in the extraction, treatment, transport and distribution of gas;
- 28 maintenance and universal repairs mechanic fitters;
- 12 welders

Within the centre, in February and June 2014 a total of 125 employees who attended the training courses in the second semester of 2013 and first semester of 2014 passed the final examinations, namely:

- 49 operators in the extraction, treatment, transport and distribution of gas;
- 57 maintenance and universal repairs mechanic fitters
- 19 welders

On 31 December 2014, the degree of unionization of the workforce was 98.21% of the total 4,820, 4,734 employees being union members (compared to the end of 2013, when the degree of unionization of the workforce was 98.76%).

There are four trade unions in which Transgaz employees are enrolled namely:

- The "Transport Gaz Medias" Trade Union;
- The Free SNTGN TRANSGAZ SA Medias Trade Union;
- The "CERTEH" Medias Technological Research Trade Union;
- The "Metan" Medias Professional Trade Union.

**The “Transport Gaz Medias” Trade Union** is the union representative at the unit level, according to Law no.62 / 2011 on the Social Dialogue, art .51, letter c. and therefore it represented the employees at the conclusion and performance of the Collective labour contract for the years 2012 - 2014 and at its extension by 12 months.

The Collective labour contract registered with the Sibiu Labour Inspectorate under no. 158/25.06.2012 has been extended for a period for 12 months until 24.06.2015, by Addendum registered with the Sibiu Labour Inspectorate under no. 158/4 25.06.2014.

The relations between employer and employees are covered by the Collective labour contract at company level as well as by the individual employment contracts of the employees. The relations between employer and employees fall under the legal provisions in force during 2014, with no conflicting elements in relation to these relations.

In the course of 2014, in line with the changes in the company’s organization the **Rules of Organization and Operation of SNTGN TRANSGAZ S.A.** have been updated, reprinted and distributed. Also, in order to align with the current conditions *The Company’s Internal Regulation and the Employees Code of Ethics* have been updated, edited and disseminated in the past year.

### **3.1.11 Evaluation of the activity of HSSEQ**

In 2014, the actions of the Control Body, Environmental Quality, Protection and Security Department, mainly targeted the implementation of the measures included in the Management plan, in the Policy Statement, the annual programs approved by the Board of Directors and/or Director General of SNTGN TRANSGAZ SA and the fulfilment of the responsibilities set by ROF and the legislative provisions specific to the areas of activity. The evaluation of this activity is presented in detail in **Annex No. 2** to the Report issued by the Board of Administrators for 2014 and is an integral part thereof.

The Activity of the Control Body, Environmental Quality, Protection and Security Department comprises aspects regarding:

- Activities carried out in the field of Occupation Health and Safety;
- Activities carried out in the field of environmental protection;
- Activities carried out by the Environmental Factors Motorization Laboratory;
- Activities carried out in the field of Environment Quality Management System;
- Activities carried out in the field of Protection, Security and Safety;
- Activities carried out in the field of Document Management;
- Activities carried out in the field of the Control Body.

***Activities carried out in the field of Occupation Health and Safety;***

***Between 01.01.-31.12.2014, the activity in the field of occupational health and safety mainly focused on compliance***

	<p><i>with the legal provisions taking all measures to ensure the safety and health of the workers, in particular by achieving those contained in the "Prevention and Protection Plan". In order to reduce and / or eliminate the risks of accidents and professional diseases at work in the company, specific actions were performed that contributed to the materialization of the planned measures, priority being given to those of technical, organizational and health - medical nature.</i></p>
<p><i>Activities carried out in the field of environmental protection;</i></p>	<p><i>The activity in the field of environmental protection mainly focused on the observance and compliance with the legal regulations and those imposed by the environmental and water management permits.</i></p>
<p><i>Activities carried out by the Environmental Factors Motorization Laboratory;</i></p>	<p><i>The main activities carried out by the Environmental Factors Motorization Laboratory in 2014 consisted of:</i></p> <ul style="list-style-type: none"> <li><i>• Monitoring pollution sources</i></li> <li><i>• Identification and assessment of the environmental aspects in Transgaz sites</i></li> </ul>
<p><i>Activities carried out in the field of Environment Quality Management System;</i></p>	<p><i>The Audit Process of the Integrated Quality-Environment-Occupational Health and Safety System. In 2014 audits were carried out for the following organizational structures within the company:</i></p> <ol style="list-style-type: none"> <li><i>1. The Maintenance Exploitation Department;</i></li> </ol>

	<ol style="list-style-type: none"> <li><b>2. The Operation Department,</b></li> <li><b>3. The Economic Department,</b></li> <li><b>4. The Information Technology and Communications Directorate (today the IT, Communications and SCADA Dept.);</b></li> <li><b>5. The Organization, Human Resources Department;</b></li> <li><b>6. The Internal Control Department;</b></li> <li><b>7. The Craiova Territorial Exploitation;</b></li> <li><b>8. Constanta Territorial Exploitation;</b></li> <li><b>9. Braila Territorial Exploitation.</b></li> </ol>
<p><b>Activities carried out in the field of Protection, Security and Safety;</b></p>	<p><b>The activity of Protection, Security and Emergency Situations Department (SPPSU) focuses on ensuring the security of the property and assets belonging to "Transgaz", the prevention and limitation of emergency situations which may affect the integrity of the NTS, the record and implementation of actions to mobilize workers at work and the statement on the records of requisitioned goods and motor means of transport.</b></p>
<p><b>Activities carried out in the field of Document Management;</b></p>	<p><b>Since the establishment of the Document Management Service, on 01.02.2014, the activity in the field of document management mainly focused on compliance with the legal provisions and tried to improve the</b></p>

	<i>procedures for recording, transmitting and archiving the documents created and held by the company.</i>
<i>Activities carried out in the field of the Control Body</i>	<p><i>The missions of Control Body Department were focused on providing an approach to minimize the risk of errors and non-conformities, aimed at achieving performance at all levels of the company. The focus was mainly on:</i></p> <ul style="list-style-type: none"> <li><i>• identifying the potential factors that could affect the achievement of the management plan;</i></li> <li><i>• proposing viable solutions during the performance of projects, primarily those funded by European funds.</i></li> </ul>

### 3.1.12 Disputes

According to the Register of cases kept by the Legal and Litigation Division, **the situation for 2014 of the disputes in which SNTGN Transgaz SA Medias was involved** is as follows:

- **80 causes** in which Transgaz acted both as plaintiff and defendant of which:
  - 35 cases – as plaintiff;
  - 45 cases – as defendant;

**Resolutions:**

- 12 cases with resolutions favourable for Transgaz;
- 1 case became superfluous during the course of the dispute (file no. 386/85/2014, on the roll of the Sibiu Court of Law – Transgaz SA plaintiff – the Dolj County Council defendant);
- 1 lost case;
- 66 cases pending resolution.

Values of causes in which Transgaz acts as plaintiff: **RON 12.3 million.**

Values of causes in which Transgaz acts as defendant: **RON 18.1 million.**

- 66 cases pending resolution.

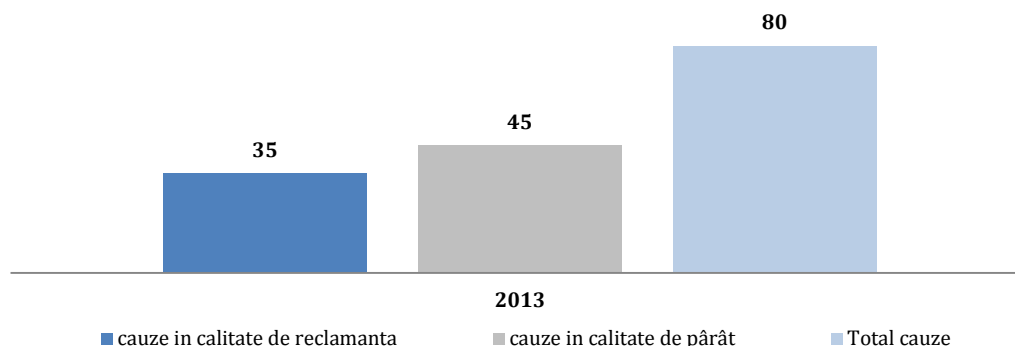


Chart 39 - Structure and number of dispute causes in which the company was involved in 2014

### 3.1.13 Other aspects of the company's activity

In order to implement the strategy of the Management Plan during the period 2013-2017 SNTGN Transgaz SA, given the EU's requirements regarding the development of the NTS interconnection with the similar transmission systems in neighbouring countries and the discovery of significant reserves of natural gas in the Black Sea in December 2013 *the Black Sea Project Management Unit* was established within Transgaz.

The main activity of Black Sea PMU is to ensure the integrated management of the infrastructure development projects of the Romania's National Transmission System for Gas (NTS) to retrieve gas from the Black Sea in accordance with the NTS Development Plan 2014-2023.

A series of activities and discussions of technical, legal, economic, financial and regulatory nature were started in this regard with the stakeholders for the successful implementation of the necessary infrastructure projects. Among these activities we emphasize the following:

- **Cooperation with companies holding exploration licenses for perimeters in the Black Sea**

With a view of making an appropriate sizing of the NTS for extracting natural gas volumes from the fields in the Black Sea, discussions with various manufacturers who hold exploration licenses in the said areas were initiated. In this regard, a COOPERATION AGREEMENT was negotiated and signed between Transgaz SA, ExxonMobil and OMV Petrom on connecting the initial development of Neptun Deepwater to the National Transmission System for Gas of Romania. Based on the Cooperation Agreement a Steering Committee and two joint working groups on technical and commercial / regulatory issues were established. Cooperation agreements are also under development and negotiation with other concessionaires holding exploration licenses in the Black Sea.

- **Developing the NTS in order to retrieve and transport the gas offshore from the Black Sea**

In order to retrieve and transport gas from the Black Sea several transmission solutions were investigated of which two are analysed in detail:

- a) **the southern transmission corridor** consisting in developing the NTS from the Black Sea shore on the direction Podisor – Corbu – Hateg – Horia
- b) **the central transmission corridor** consisting in developing the NTS from the Black Sea shore on the direction Issacea – Onesti – Coroi – Hateg – Horia

- **Obtaining grants in order to finance the projects**

The process for obtaining grants was initiated through the Connecting Europe Facility (CEF) mechanism for the section Podisor-Corbu-Hateg-Horia, section



representing the Romanian section of common interest project "*Gas pipeline from Bulgaria to Austria via Romania and Hungary*".

In this regard the investment application was submitted with the ANRE (The Regulatory Authority for Energy) in order to obtain a cross-border cost allocation decision, a necessary condition to obtain non-reimbursable grants. The cross-border cost allocation proposal was not accepted by the transmission system operators (TSOs) involved. In order to unblock the situation a joint activity with the TSOs was started in order to prepare an investment application (including a cost-benefit analysis) and a coordinated cross-border cost allocation proposal. We agreed on the cross-border cost allocation proposal, and the investment application is to be submitted with the ANRE.

An application for obtaining non-reimbursable funding through the CEF mechanism was submitted for the study "*Preparation of Technical Project for the Corbu, Hateg and Horia compression stations*". A non-reimbursable financing decision was issued to design the three compression stations through the CEF program, the grant may reach 50% of the eligible costs of the design (worth about 1.5 million euros).

A collaboration with the United States Trade Development Agency was initiated for obtaining grants in order to validate the feasibility studies for projects:

- **The southern transmission corridor** consisting in developing the NTS from the Black Sea shore on the direction Podisor – Corbu – Hateg – Horia;
- **The central transmission corridor** consisting in developing the NTS from the Black Sea shore on the direction Issacea – Onesti – Coroi – Hateg – Horia.

Prefeasibility studies were submitted for the projects mentioned above as well as all the subsequently requested clarifications, so that in February, 2015 USTDA to announce that the projects are eligible for grants.

#### ▪ **Improving and completing the regulatory framework**

In order to improve the regulatory framework a draft of the "Rules for capacity reservation at future entry/exit points" was finalized. This draft will enable Transgaz to make investment decisions based on the degree of interest assumed by potential customers and to be discussed with the A.N.R.E.

#### ▪ **Active participation in drafting the Ten-year Development Plan**

The Black Sea PMU actively participated in the preparation and finalization of the Development Plan of the National Transmission System for Gas 2014-2023, also including the additions requested by A.N.R.E. on the description of the major projects included in this plan.

#### ▪ **Cooperation with ENTSOG**

Since edition 2015, the Ten-Year Network Development Plan (TYNDP) developed by ENTSOG will be particularly important as it will provide a basis for selecting projects of

common interest (PCI) at European level. Thus, during July-September 2014 the data collection process for the projects proposed by the European Transmission System Operators (TSOs) for TYNDP, 2015 edition was performed. Transgaz nominated a total of 9 projects for which the Black Sea PMU sent to ENTSOG via an online platform the required data about the projects.

#### ▪ **Various other actions**

The company contributed along with other Nabucco partners in the voluntary liquidation process of the company Nabucco Gas Pipeline International and in the reconciliation process of the amounts from the escrow account between the NIC shareholders and the Shah Deniz shareholders (finished with signing ***the Agreement regulating the distribution of amounts from the escrow account between the Nabucco shareholders and the Shah Deniz shareholders (Deed of Reciprocal Release and Settlement)***).

Following the completion of the reconciliation process Transgaz collected from the escrow account the amount of EUR 1,468,500. Besides the mentioned amount, following the liquidation of the NIC company, we also succeeded in recovering the amount of EUR 960,657.38 which leads to a total of over EUR 2,429,157.38 for 2014.

Currently there are ongoing negotiations regarding the possibility and method of distribution between the shareholders of the remaining assets of the Project Company as well as the recovery of additional amounts.

#### ***Events after 31.12.2014***

On 20.02.2015, SC Depositarul Central SA registered the transfer of a total of 6,888,840 shares (representing 58.5097% of the share capital) issued by SNTGN Transgaz SA from the account of the Romania represented by the Government through the General Secretariat of the Government into the account of the Romania through the Ministry of Economy, Trade and Tourism, following the implementation of EO no.86 / 2014.

#### ***Elements regarding the activity of Transgaz at international level***

In order to implement the strategic objectives of transforming into a European-sized company, Transgaz needs to strengthen its status conferred both by the geographic location and the monopoly on the operation of the national transmission system for gas, asserting its regional importance by participation and active involvement in forums, organizations and European authorities in the field, by participation in projects of regional and European interest and by establishing active partnerships with companies in the field.

In order to achieve these objectives, in 2014, Transgaz had an intense cooperation with gas transmission operators from the neighbouring countries (Bulgaria, Hungary, Moldova, Ukraine, Serbia), the Directorate General for Energy of the European

Commission, Companies in the natural gas field, Transmission System Operators for Gas from the European Union, as follows:

**Cooperation with the Gas Transmission System Operators from the neighbouring countries (Bulgaria, Hungary, Moldova, Ukraine, Serbia) in order to implement and jointly operate the cross-border interconnections, as follows:**

***Cooperation with BULGARTRANSGAZ EAD, Bulgaria:***

- Drafting and monitoring the correspondence related to the Bulgaria-Romania interconnection project, in the direction Giurgiu-Ruse;
- Organizing and participating in meetings with the representatives of Bulgartransgaz on the Bulgaria-Romania interconnection project:
  - in order to analyse the implementation stage of the construction works of the main thread of the Danube river under-crossing pipeline in order to interconnect the gas transmission systems from Romania and Bulgaria;
  - in order to coordinate the public procurement procedure of the building services for the secondary thread of the Danube river undercrossing pipeline.
- Managing the correspondence with Bulgartransgaz on the Bulgaria-Romania interconnection project;
- Managing and participating in drafting the common Bulgartransgaz-Transgaz documents related to the public procurement procedure of the building services for the secondary thread of the Danube river undercrossing pipeline. The public procurement procedure of the building works for this pipeline was started in early January 2015.
- Managing correspondence and participating in meetings with the representatives of Bulgartransgaz for the development of the project "Natural gas pipeline from Bulgaria to Austria via Romania and Hungary";
- Managing and participating in drafting the correspondence related to the joint operation of the Negru Voda I cross-border interconnection point (the Operating Agreement and the capacity Allocation Agreement (CAA). The CAA was signed on 17 March, 2014;
- Drawing up notes for discussion and action plans, following the meetings with the representatives of Bulgartransgaz.

***Cooperation with BULGARGAZ EAD, Bulgaria:***

- Managing the correspondence regarding the possibility of resolving the contractual issues with Bulgargaz EAD, for the pipeline Isaccea I-Negru Voda I (in order to settle the infringement procedure triggered against Romania by the European Commission for failing to ensure third party access to the gas transit pipelines) and amending the transit contract.

***Cooperation with FGSZ Ltd.:***

- Drafting and monitoring correspondence with FGSZ Ltd., and participating in the development of agreements with FGSZ Ltd. on the joint operation of the Csanadpalota interconnection point (addenda to the Operating Agreement and the Capacity Allocation Agreement);

- Drafting and monitoring the correspondence and participation in drafting the agreements related to the Pilot Project for early implementation of the Network Code regarding the Capacity Allocation Mechanisms, which was started on 10<sup>th</sup> December 2014 (the TSO Cooperation and Affiliation Agreement and Agreement on the Affiliation of the Network User for the use of the Regional Booking Platform);
- Participation in the drafting and development of the investment application in order to obtain EU financial assistance through the Connecting Europe Facility mechanism to develop the project "Gas pipeline from Bulgaria to Austria via Romania and Hungary" (BRUA);

#### ***Cooperation with Moldovatrangaz, Republic of Moldova:***

- Drafting the correspondence, organizing and participating in the meeting with the representatives of Moldovatrangaz in order to exchange experiences regarding the regulatory framework for the gas transmission activity in the two countries and the need to harmonize it with the requirements of the European regulatory framework.

#### ***Cooperation with Srbijagas, Serbia***

- Drafting the correspondence with Srbijagas for initiating a collaboration for the development of an interconnection between the two transmission systems for gas. Given that the Transgaz proposal to arrange a meeting did not materialize, this collaborative initiative will be resumed.

#### ***Cooperation with the European Commission and other institutional relationships:***

- Managing the correspondence with the European Commission on the Transgaz projects listed on the list of Projects of Common Interest in the European Union;
- Drafting and submitting the list of proposed projects to be included in the second list of PCI in the European Union to the European Commission;
- Permanent collaboration with the European Commission, including through participation in meetings of regional groups defined by Regulation 347/2012, in the selection process of the projects for the following list of PCI;
- Monitoring and managing the correspondence with ANRE on the ten years development plan for the gas transmission network in Romania and coordinating the project "Gas pipeline from Bulgaria to Austria via Romania and Hungary" (BRUA);
- Drafting and managing the correspondence with the line ministries on inter-ministerial level events, such as Joint Intergovernmental commission, to which Transgaz is invited to participate;
- Informing the Transgaz leadership and the line ministries on the state of the development projects undertaken by the company with the partners mentioned above.

#### ***Cooperation with Transmission System Operators for Gas from the European Union within the European Network of Transmission System Operators for Gas (ENTSOG):***

- All the information required to prepare the Ten-Year Network Development Plan (TYNDP) were sent;

- An addendum to the Memorandum of Understanding was concluded in December 2012 which provides for Transgaz to be represented on the Board of Directors (The Board of ENTSO-G) from 1<sup>st</sup> January 2016.

### ***Other cooperation actions***

- Monitoring and managing the activities conducted within some associations or organizations to which our company has become a full member or associate member (ENTSOG, CNR-CME; The oil and gas engineering company society, the Chamber of Commerce, Industry and Agriculture - Sibiu The Romanian Fracture Mechanics Association; AmCham; the Romanian Energy Association, Petroleum Cluj, the Balkan and Black Sea Petroleum Association, Piggings Products and Services Association, GIE), including taking the necessary steps for paying the annual fees and participating in events organized by them;
- Analysis of tenders and managing the documents related to the orders on certain catalogues, brochures, publications published internationally relevant to the field of activity of Transgaz (Pipelines International, Great Southern Press Australia, Claeys and Casteels European Energy Journal, Europe Oil & Gas Market Forecasts);
- Managing the contract concluded with the national and international fast shipment company "DHL Bucharest" for domestic and international shipment services. In November 2014, the shipment contract tracking activity was transferred to the Document Management Division within the Body Control, Environmental Quality, Protection and Security department;
- Prepare a periodic summary of the relevant articles of the Transgaz field of activity, published in the press in the CIS countries.

We consider worth mentioning that during 2014 the division through its director, the director of the Cooperation and European regulations division as well as the heads of the departments of the European Funds Accessing and International Relations Division (DAFERI) participated in a series of meetings with various external partners, meetings that have had a significant impact on the company's business and objectives.

Of these, the most relevant are the following:

- Meetings with the European Commission to promote the Romanian system development projects needed for the retrieval and capitalization on the Romanian and regional market for the gas from the Black Sea;
- Meetings with FGSZ, Gas Connect and Bulgartansgaz for coordination for the implementation of the BRUA project with European financial support under CEF.
- Meetings of the Executive Board of Transgaz - Exxon Mobile - OMV Petrom for monitoring and planning joint actions carried out under the Cooperation Agreement concluded between the three companies.
- Meetings with representatives of the Ministry of European Funds and of the Energy Intermediary Body to identify funding opportunities for the company's priority projects.
- Meetings with Eustream (transmission system operator in Slovakia) to identify new regional projects and collaborations in order to achieve them.

- Meetings with Bulgartransgaz to complete the Ruse - Giurgiu interconnection project.
- Meeting with the European Commission to support with arguments the application for the extension of the period of validity of the EU funding (EEPR) obtained for the Ruse - Giurgiu project.
- Meetings with the European Commission and the partners from the Republic of Moldova to identify regulatory solutions related to the Iasi - Ungheni interconnection.
- The ENTSO-G General Assembly and audit, transparency, capacity, liaison working groups.
- Meetings at managerial level with UKRNAFTA and the Ukrainian Ambassador in Bucharest to discuss the possibility of providing bi-directional flow of gas between the two natural gas transmission systems.
- Meeting at the Embassy of Norway to identify opportunities to attract funding from the Norwegian Funds allocated to Romania for Transgaz' projects.
- Meetings with the Economic Counsellor of the Embassy of the Arab Republic of Egypt, in Bucharest, in order to find a cooperation direction, under a memorandum.

Also, the participation in international events, meetings with European organizations in the same field or with various other external partners, Transgaz promoted and supported the company's interests identifying at the same time the potential for the development of new beneficial cooperative relationships to achieve the objectives of Transgaz. We mention below some of the relevant international events at which our society was represented by the participation of specialists from the European Funds Accessing and International Relations Division:

- *The meeting of the European Commission with project promoters in the context of European funding by CEF of projects of common interest in the field of energy;*
- *The Upstream Development for the Caspian and Black Sea Region Conference;*
- *The 5th International Conference Turkmen Gas Congress 2014;*
- *Celebrating 40 years of service of the company Bulgartransgaz;*
- *The 16th Congress "Cis Oil and Gas Transportation";*
- *The Annual Regional Natural Gas Forum: infrastructure, market and services;*
- *The Energy Potential of Romania in the transition process towards the EU energy system;*
- *The GIE Conference;*
- *Romania Gas&Exhibition 2014.*

Specialists of the European Funds Accessing and International Relations Division (DAFERI) made presentations on the company's projects in the following international conferences:

- *"Energy Investors Summit" and "Romania 2035: Security and energy policies in the regional context"*
- *"The Romanian Energy Committee: Romanian Energy Days in Brussels"*

The company's image and projects were also promoted during some programs broadcasted by The Money Channel, where the DAFERI Manger gave two interviews. The DAFERI representatives also had an important contribution to the organization of the event – „**Natural gas transmission in Romania - A century of existence**”.

### 3.2 Analysis of the development activity

#### 3.2.1 The main components of the NTS infrastructure

The main components of the National Transmission System for gas on 31<sup>st</sup> December 2014 are as follows:

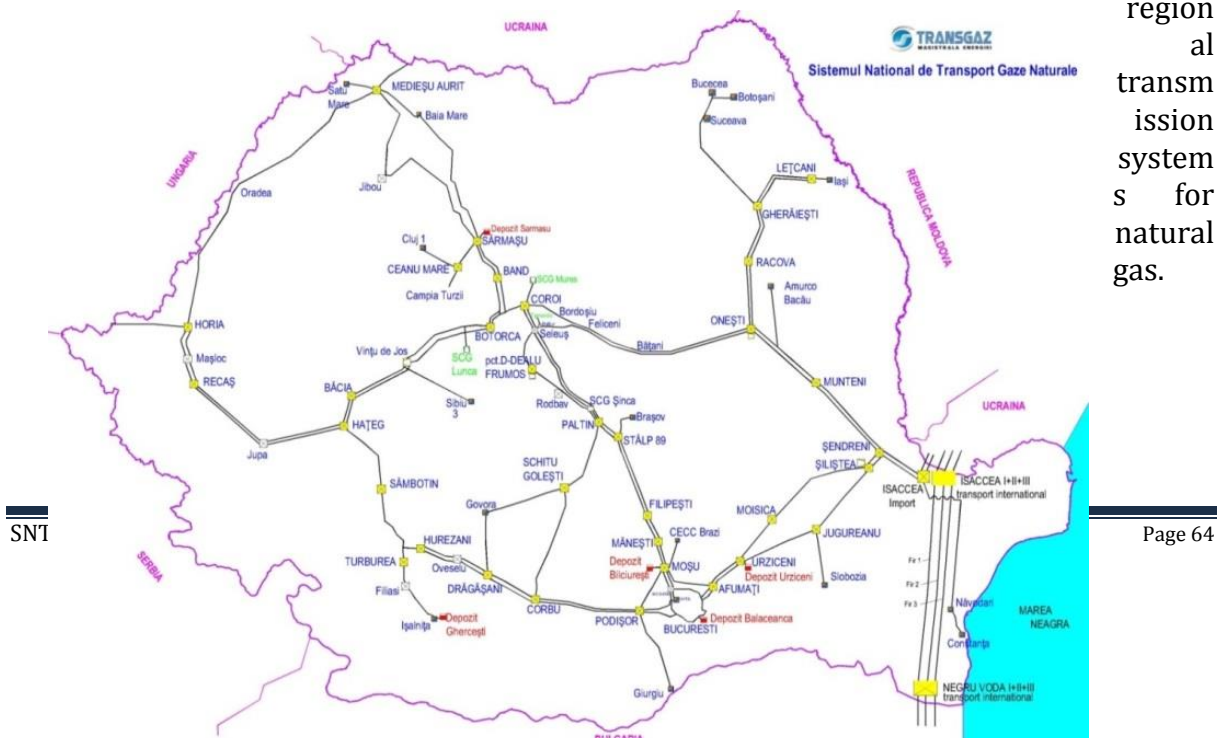
Name of NTS objective/component	U.M.	
Transmission pipelines and connections of gas supply, of which transit pipelines	km	13m232
Measurement regulating stations (MRS) in operation	pc	553 (1,235 measurement directions)
Valve control stations (VCS, NT)	pc	49
Import gas measuring stations (GMS)	pc	6
Measuring stations located on the gas transit pipelines (GMS)	pc	6
Gas compression stations (GCS)	pc	4
Cathode protection stations (CPS)	pc	1037
Gas odorization stations (GOS)	pc	818

Table 30 - Main components of the NTS on 31.12.2014

The National Transmission System (NTS) has coverage across the entire national territory and has a radial-ring structure.

The ability to transmit and transit natural gas is provided through a network of pipelines and supply fittings with diameters between 50 mm and 1200 mm at pressures between 6 bar and 40 bar, with the exception of international transmission (54 bar).

The operation of the NTS is done via 9 regional transmission operations, in turn composed of 50 sectors. From the technological point of view the NTS consists of 9 sub-



regional transmission systems for natural gas.

*Illustration 2 - Map of the Natural Gas Transmission System*

### Description and analysis of the degree of wear of the NTS components

An analysis of the main objectives belonging to the NTS in terms of service life is shown in the table below:

Service life	Transport pipelines (km)	Supply fittings (km)	Number of Directions for Metering Regulating Stations
> 40 years	5,975	311	131
Between 30 and 40 years	2,180	106	50
Between 20 and 30 years	743	212	104
Between 10 and 20 years	1,228	757	523
< 10 years	1,293	427	427
<b>TOTAL</b>	<b>11,419</b>	<b>1,813</b>	<b>1,121 MRSs (1.235 metering directions)</b>
	<b>13,232</b>		

*Table 31-Main components of the NTS on 31.12.2014, in terms of service life*

To be noted that in terms of natural gas transmission pipelines from the 13,232 km in operation, about 71% have a higher effective service life of 20 years, close to their normal service life.

The diagnostics performed, in which the intelligent PIG for about 2,281km (2,942 km taking into account multiple inspections) reveal high enough levels of tubular material defects, mainly due to the technical state of the active insulation, made for about 79.5% of the pipelines of the system based on bitumen currently aged and damaged, which may increase the electricity consumption recorded in the 1,037 pipeline cathode protection stations.

Approximately 96% of the pipelines and fittings that are in use have cathode protection. Potential intensive metering were performed for 218 km of pipelines.



The handing over of the gas to the distributors and end users is done by the 1,235 MRSs (directions of metering) that are included in the upgrading / rehabilitation programs to be integrated into a SCADA automatic control and monitoring system. Of the 1,235 MRSs (directions for use) in operation in the first stage, a total of 948 are considered for the implementation of the SCADA system.

The compression capability is provided by four gas compression stations, placed on the main transmission directions. They are equipped with equipment and facilities made in the 70s, which in many cases fail to meet the performance required by the transmission parameters. During 2014 rehabilitation / upgrading works were conducted to the Sinca and Onesti compression stations.

Also, scheduled rehabilitation works - technical revisions were carried out for the compression groups as well as repairs of parts with third parties. Checks and calibrations were carried out for the automation systems, rehabilitation works at the facilities inside the Sinca GCS. Within the Onesti GCS further upgrading works were made and are currently carried out at the keyboard of the group start-up sequence.

The gas dispatching in the NTS is performed by manoeuvres also carried out in the interconnection nodes of the main pipelines. Most nodes are equipped mainly with manually operated manoeuvre valves and equipment for tracking parameters, most of which are out-dated in terms of performance and operation safety. From the existing technological nodes about 20% are new or rehabilitated. During the implementation of the SCADA system, the process of modernizing the technological nodes will continue.

Gas odorization is ensured by a number of 818 odorization facilities of which 449 systems are a new, by sampling and by injection ensuring an optimal odorization of the transported gas. Of the 449 modern systems, a total of 29 are centralized - serving several delivery points. The other 369 "evaporation/drip" type systems are systems that cannot provide a continuous and controlled odorization and can lead to situations of under or overodorization and thus to an increased consumption of odorant. Out of these 14 facilities are centralized.

It should be stressed however that although the infrastructure is quite out-dated, the technical condition of the NTS is maintained at an appropriate level due to the fact that the operation is carried out based on a predominantly preventive planned and corrective maintenance system and based on some upgrading programs. These programs are founded on the Technical Rules on the maintenance of the NTS as they are carried out on a longer period of time due to their high levels.

### ***Cross-border interconnection points***

Currently, the import of natural gas to Romania is achieved by 3 cross-border interconnection points:

#### **UKRAINE**

#### **Orlovka (UA) – Isaccea (RO)**

Dn = 1000 mm,  
Capacity = 8.6 bn m<sup>3</sup>/year  
P<sub>max</sub> = 55 bar

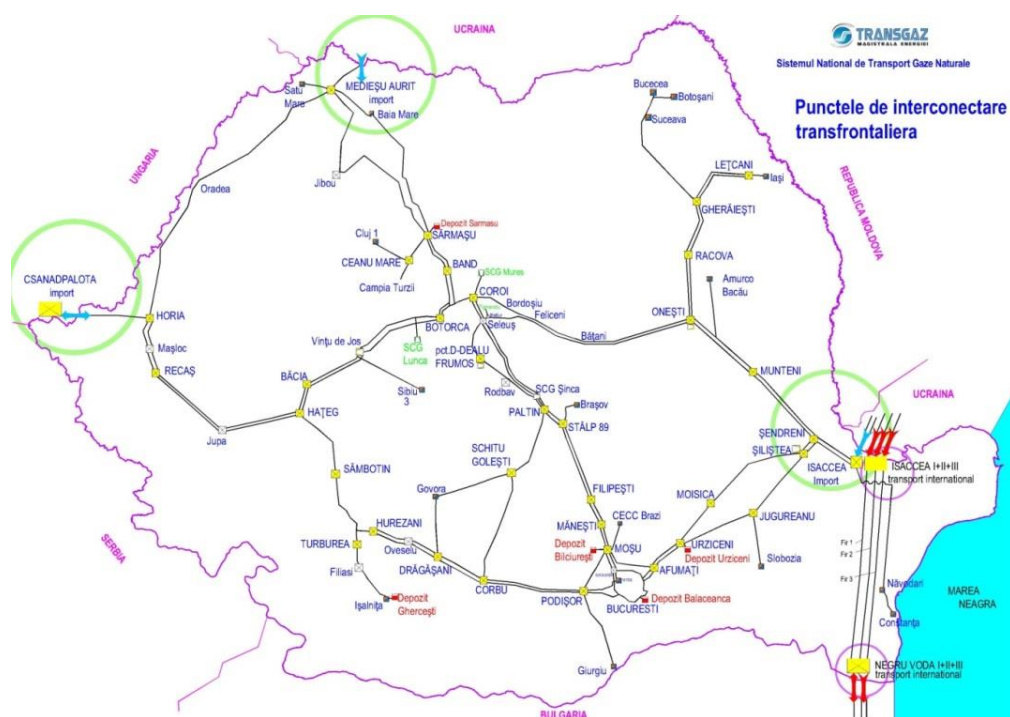
**Tekovo (UA) – Mediesu Aurit (RO)**

Dn = 700 mm,  
Capacity = 4.0 bn m<sup>3</sup>/year  
P<sub>max</sub> = 70 bar

**HUNGARY**

**Szeged (HU) – Arad (RO) - Csanadpalota**

Dn = 700 mm,  
Capacity = 1.75 bn m<sup>3</sup>/year  
P<sub>max</sub> = 63 bar



*Illustration 3 – Cross-border interconnection points of the NTS*

**3.2.2 Investments made versus Investments scheduled in 2014**

Compared to the estimated value of the programme, the total value of the achievements is RON 139,392 thousand, which is a fulfilment of the program at a rate of 41.79%. The status of the achievements related to the ongoing objectives of the upgrading and development program at the end of 2014 are as follows:

- ✘ **Upgrading of the Sinca TCS** - The upgrading works contracted in 2013, are completed and accepted;
- ✘ **Upgrading and automation of the technological nodes** - This subchapter includes the upgrading works for the technological facilities and the automation of the technological nodes included in the implementation project of the SCADA remote

control and data acquisition system, work of which some are continued since 2013. Out of the 38 technological nodes, 15 are run by own staff by the Medias Branch and 23 by third parties. Currently, there are ongoing works at the technological Botorca, Mosu, Dealul Frumos, Mediesu Aurit and Podisor nodes and for the Racova, Gheraiesti and Hateg nodes an order for the purchase of materials was issued. For the technological nodes Sarmasel and Band the works were physically completed and will be accepted after the settlement of the most recent works performed. For the TNs: Stalp 89, Corbu, Paltin, Ceanu Mare, Bacia, Letcani, Recas, Sambotin and Onesti the works were completed and accepted;

- ✂ The Medias Branch completed the works at the Urziceni, Sendreni and Onesti technological nodes. For the other technology nodes scheduled to be completed by the Branch, the preparatory works were started and the acquisition of the valves necessary for the completion of the scheduled works is pending. A total of four technological nodes (Filipesti, Manesti, Jugureanu and Moistica) are in the tender procedure;
- ✂ **Upgrading of the Onesti STC** - The upgrading works were contracted in March, are underway and due for completion in 12 months;
- ✂ **The Ø16" Biharia - Alesd gas transmission pipeline** - The construction works were completed and accepted;
- ✂ **The Turnu Magurele - Corabia Ø12" gas transmission pipeline** - The execution works are underway since March a pipe thread being executed until 31.12.2014, 26 km of. The Olt River undercrossing was completed and additional works that occurred during the contract are underway. Penalties will be applied since the manufacturer has not met the deadline for the completion of the works,;
- ✂ **The Campulung Moldovenesc - Vatra Dornei Ø10" gas transmission pipeline** - The execution works are suspended for lack of approval from ROMSILVA necessary to obtain the Construction Permit. The annual achievements are other costs associated with the execution (damages, fees, permits, etc.);
- ✂ **The Crevedia - NT Mosu Ø32" gas transmission pipeline** - The order to start the construction works was issued in June in the areas where the owners' consent is obtained (2,400 m). Works are temporarily suspended due to the weather conditions and will be continued and completed in 2015;
- ✂ **The Vaslui - Iasi (Vaslui - Mogosesti section) Ø16" gas transmission pipeline** - The execution works are suspended for lack of approval from ROMSILVA necessary to obtain the Building Permit. The annual achievements are other costs associated with the execution (damages, fees, permits, etc.);
- ✂ **The PM Ghercesti - SDE Craiova Ø24" gas transmission pipeline** - The Building permit was issued on 07.09.2014, the execution works are temporarily suspended due to the weather conditions and will be continued and completed in 2015;
- ✂ **The Tepu - Munteni Ø8" gas transmission pipeline** - The execution works for the pipeline thread were completed and the pipeline was connected to the NTS. Under the contract the dismantling works of the old pipeline are still to be completed, works that are underway;
- ✂ **The Grivita - Tg. Bujor Ø12" gas transmission pipeline** - The execution works were completed and accepted;
- ✂ **The Vaslui - Letcani (Mogosesti - Letcani) Ø16" gas transmission pipeline** - The execution contract was concluded on 30.05.2014 with SC MOLDOCOR SA. The

site was handed over and the order to commence the execution of the works was issued in June. The works are temporarily suspended due to the weather conditions and will be continued and completed in 2015;

- ✂ **Systematization of natural gas supply in the Fantanele – Sovata area, Mures county** – the systematization of the gas supply in area will solve the problems related to the safe operation and supply of natural gas quantities destined to the consumers in the area. The proposed works were completed, accepted and took into service;
- ✂ **Preparing the Silistea – Bucharest Ø 20” gas transmission pipeline and location of the Dn 500 mm pigging station within the Sendreni VCS** - the consolidation works at the cells from the Buzau river crossing and the execution works of the pipeline thread were completed, accepted and took into service;
- ✂ **Diversion of the Bucecea – Siret Ø10”/Ø8”pipe connection, in the area of the Varful Campului accumulation lake** - this target was introduced in the 2014 PMDI motivated by the upgrading works that are carried out at the Siret River dam, carried out with European funds, works affecting the mentioned above pipeline connection. The works are temporarily suspended due to the weather conditions and will be resumed and completed in 2015;
- ✂ **Systematization of natural gas supply in the Fundulea – Branesti area** – The proposed works include moving the Branesti MRS to another site and building its connecting pipeline to the existing pipelines. The works are temporarily suspended due to the weather conditions and will be resumed and completed in 2015;
- ✂ **Diversion of the Fantanele – Bistrita Ø10” – Ø6”gas transmission pipeline, thread I and thread II, PM Fantanele area** – in order to operate the pipelines safely and without undesired events, a diversion of the gas transmission pipelines Dn 150 mm Fantanele - Bistrita (thread I) and Dn 250 mm Fantanele - Bistrita (thread II) will be performed with a 400 mm diameter pipeline for a length of about 750 m, as well as the disposal of some portions of pipelines and the related technological facilities. A new measurement panel and a new automatic cathode protection station will also be mounted. The works are temporarily suspended due to the weather conditions and will be resumed and completed in 2015;
- ✂ **Diversion of the Band – Sarmasel Ø20” gas transmission pipeline, Pusta area** – This objective includes pipeline diversion works diversion on around 400 m, diversion that is required by the need to observe the technical standard on the pipeline safety distances to nearby buildings. The works are temporarily suspended due to the weather conditions and will be resumed and completed in 2015;
- ✂ **Gas transmission pipeline Dn 700mm Sinaia – Filipesti, in the Provita de Jos area** – following the floods of June 2014, the pipeline was affected in the area of the Provita river crossing, requiring the execution of defence and riverbank consolidation works. The scheduled works were completed and accepted;
- ✂ **Gas transmission pipeline Dn 350 mm, Km 65 Pleasa at undercrossing the Teleajen river** – following the floods of June 2014, the pipeline was affected in the area of the Teleajen river crossing, requiring the execution of defence and riverbank consolidation works. The scheduled works were completed and accepted;
- ✂ **The Ungheni – Iasi interconnection pipeline** – the achievements are the value of the gas purchased for filling in the transmission pipeline in accordance with Decision No.27 of the Executive Board of 31.07.2014;

- ✘ **Connection to the NTS and replacement of the technological installations at the Bazna MRS** – the scheduled works provide the urgent execution of the connection works of the Bazna MRS to the Bazna - Medias DN 500 mm pipeline and replacement of the old and outdated (start-up in 1965) technological facility. This work is aimed at preparing the NTS for winter and ensuring its safe operation, being completed and accepted;
- ✘ **Gas supply connection of the Copsa Mica MRS MECTA** - scheduled work provide the urgent implementation of a new gas supply connection of the Copsa Mica MRS MER, which supplies gas to SC MARAL SA, as the old connection broke due to age and the high degree of wear. The works were completed and accepted;
- ✘ **Changing gas supply connection at the Cetatea de Balta MRS**– the scheduled works were performed urgently in order to prepare the NTS for winter and to ensure its safe operation, the old connection being physically and morally outdated and posing a major operation risk. The works were completed and accepted;
- ✘ **The Giurgiu – Ruse interconnection pipeline** – On 01.02.2015 the execution contract was terminated completely, following that in week 16 – 20.02.2015 an inventory of the ongoing investment to be performed. For thread II, the original contract signed with SC CALA SA was terminated, the tender procedure being resumed for which the deadline for opening tenders is 27.02.2015;
- ✘ **Construction works and surface facilities for the metering regulating stations** – works execution for the Negru Voda IV GMS were completed and accepted. A total of 12 MRS were contracted with capacities between 250-6200 Nm<sup>3</sup>/h and the tender procedure for the procurement of 10 MRS sites with capabilities between 50-15000 N m<sup>3</sup>/h is underway;
- ✘ **Cathodic protection stations** – The execution works at the Albesti CPS, Livezi CPS and Baltita CPS were completed and accepted. The remaining scheduled CPSs are in the design phase or are awaiting for the Building permit;
- ✘ **Works related to information technology and telecommunications** - The achievements are the purchase value of the computer technology and software;
- ✘ **Construction works and surface facilities for the odorization facilities** - The achievements are the purchase value of the odorization facility at the Jidvei MRS. For the 92 facilities proposed, procurement contracts were concluded with SC TOTAL GAS Iasi and SC SUDOCOR VMV – Fagaras, ongoing contracts, of which 14 facilities were mounted on the locations;
- ✘ **Hydrotechnical works** – The works on the following were completed:
  - Bank consolidation to protect the overcrossings of the Baraolt stream with Iasu-Batani Ø32" pipeline and the Iasu-Deal Moghioros Ø28" pipeline, the Batani STC area;
  - Riverbed land planning and restoration of the Iadara stream overcrossing with the Somcuta-Ulmeni Ø8" pipeline, the Iadara area;
  - The Prahova river bank consolidation for the protection of the Colibi - D point - Stalp 89 - Bucharest Ø20" pipeline, the area upstream of the P. Campina MRS;
  - Bed land planning and restoration of the Vad stream overcrossing with the Rotbav-STC Sinca Ø20", 24", 28", area of the Vad forest.

The following works are underway:

- Defence of the Oituz river bank at Harja for the protection of the Moghioros - Onesti pipeline, thread I and II;
- Repairing the Posada - Bobolia pipeline and defence of the Prova river bank, Poiana Campina area;
- Consolidation of the Prahova river bank for the protection of the C Colibi - D point - Stalp 89 - Bucharest Ø20" pipeline, the Comarnic Baraci area;
- Riverbed land planning and restoration of the Valea Cerbului stream overcrossing with the Valea Cerbului-Platou Izvor Sinaia Ø28" gas transmission pipeline, Valea Cerbului area;
- Defence of the Provita river left bank in the Magureni area;
- Redoing the bed threshold at Vulcanita.

Two hydrotechnical works were contracted in November and the site is to be handed over.

- ✎ **Filtration installations** –The filtration facility replacement works were completed at SC RULMENTUL Barlad;
- ✎ **NTS access works** - The achievements are the value of the execution works for the natural gas supply to the settlements Dumbravita – Timis county, Aurel Vlaicu – Hunedoara county, Rachiteni – Iasi county, Comanesti - Bacau county and Corabia – Olt county. The NTS was connected to two industrial customers SC EGGGER SRL Radauti and SC SAM MILLS SRL Satu Mare.

We still face difficulties in achieving some investment objectives such as:

- **the Plataresti – Balaceanca Ø20" pipeline** - due to lack of agreements from some landowners, it is necessary to divert the pipeline on another route, the execution contract being terminated;
- **the Campulung Moldovenesc – Vatra Dornei Ø 10" gas transmission pipeline**, is the stage I of the 9.2 km long pipeline thread of between Campulung Moldovenesc and Pojorata is underway, 8.2 km of pipeline thread of this section having been executed. There were problems with landowners that do not allow building the pipeline through their gardens and at the undercrossing of 2 roads. Also, the continuation of the works on the forestry real estate on the 26.47 kilometres long section designed from the Pojorata to Vatra Dornei is subject to approval of ROMSILVA, necessary to obtain the Building Permit, which to date has not been issued;
- **the Vaslui – Iasi (Vaslui – Mogosesti section) Ø16" gas transmission pipeline** - construction works are stopped because of the problems with obtaining the approval of ROMSILVA for the land located on the forestry real estate, approval required to be issued the Building Permit;
- **the Crevedia – Podisor Ø32" gas transmission pipeline** – given the decision of Ploiesti Court of Appeal, which upheld the appeal of applicant Apostolache Laurentiu, SNTGN TRANSGAZ SA Medias is required to divert a portion of the gas transmission pipeline executed on the Crevedia – Podisor direction, on another route to avoid the applicant's property, and the route will be determined by a

new design solution. Given that so far no consensus has been reached with the landowner, measures were taken to commence the expropriation proceedings.

In order to solve the problems encountered during the execution works and the achievement of scheduled objectives the following measures were taken:

- law suits were opened for the owners who have not given their consent for the access to their land of the constructors. In the cases where no consensus was reached in the legal way, steps were taken to start expropriation procedures;
- in some more difficult areas, in terms of obtaining agreements from the landowners or at the request of the local government, it was decided to redesign the pipeline route and the technical solutions to achieve the construction;
- for the Balaceanca – Plataresti pipeline, following the redesign the amounts of works (the pipeline route increased by 3 km) and their value changed, a fact for which it was decided to terminate the original contract, and a new contract will be concluded;
- for the works whose deadline was exceeded, the measure of charging penalties was taken towards the contractor according to the contractual provisions;
- for the areas on forest real estate for which the approval of ROMSILVA was not obtained, as a result of the amendment of the legislation in the field, the discussions will be resumed to settle the disagreements arisen when crossing these areas.

Please note that most investment objectives for which no achievements were made, have recently completed contracts, the actual achievements will be made in the following period, or are in the procurement phase. Also, there are a number of objectives in the design phase that face difficulties in obtaining agreements from the landowners, reason for which the building permits cannot be obtained.

### ***3.2.3 Rehabilitation, repair and maintenance works achieved vs the plan 2014***

The failures of the repair program are mainly caused by:

- The shift of the deadlines for drafting the technical projects, difficulties in obtaining agreements from the owners or institutions that hold or manage land in the areas closest to the pipeline and therefore the failure to issue the building permits in due time;
- Difficulty in developing the procedures for the award of the maintenance works and services, which led to delays in the scheduled start of some scheduled works and services and to the shift of the deadline for their completion;
- In terms of services, the budgetary allocations for some repair and service provisions can be assessed with an acceptable degree of predictability, and for others the values provided in the programs are based only on ensuring a proper

budget where these provisions are required to be purchased. Therefore, most of the corrections brought to this chapter of the programme are negative (downward value) and the waiving or reduction of the amount of those purchases are budget savings and not failures.

### **3.2.4 Development projects**

In consideration of compliance with the European Directive EC/73/2009 Art. 22, on the compulsory character of drafting **Ten-year Development Plan** for all gas transmission system in the European Union, SNTGN TRANSGAZ SA Medias, as technical operator of the National Transmission System for gas in Romania drafted the **Development Plan of the national gas transmission system during the period 2014-2023**.

The document presents the development directions of the Romanian gas transmission network and the major projects that the company intends to implement in the next 10 years in order to achieve a maximum degree of transparency in the development of the national gas transmission system and the possibility of the actors on the market to be timely informed on the existing and planned transmission capacity so that by public consultations, the decisions on the investments in the gas transmission network to meet the market requirements.

**The Development Plan of the National gas Transmission System (NTS) during the period from 2014 to 2023** prepared in accordance with **Art. 125 paragraph 6 of Law No.123 / 2012 of electricity and gas**, with the objectives set in the Romania's Energy Strategy for the period 2011 to 2035 and the Energy Pact of May 2013 meet the European energy policy on:

- ensuring safety of natural gas supply;
- increasing the interconnection of the national gas transmission network to the European network;
- increasing the flexibility of the national gas transmission network;
- liberating the gas market;
- integrating the gas market in the European Union.

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

In this context, the development plan of the national gas transmission system during the period 2014 - 2023 envisaged the coordination with the development plans envisaged by other operators in the region.

The development projects described in the development plan were identified following detailed analyses and evaluations carried out by the company in the last half year and consider the latest developments of trends and supply scenarios on the European gas market.



A sustainable development of the gas transmission infrastructure from Romania requires a large investment programme to allow the alignment of the NTS to the transmission and operating requirements of the European gas transmission network.

In the context of the geopolitical and geo strategic nature of the European energy routes, Romania benefits from the advantages of its geographical location on the major transmission corridors and access to major resources of natural gas recently discovered in the Black Sea, aspect leading to the need for the efficient use of these opportunities.

Through the **10 Year National gas transmission system development plan**, Transgaz, proposes major investment projects for the strategic and sustainable development of the gas transmission infrastructure in Romania and its compliance with the requirements of the relevant European regulations.

The orientation of the gas transmission system operators in the neighbouring countries to create new cross-border transmission capacities or amplify the existing ones clearly shows concern for a significant increase in the degree of interconnection in an area of Europe where there is still much to be done for a fully integrated market.

**The 10 Year National gas transmission system development plan was approved by ANRE by Decision no. 2819/17.12.2014 and is posted on the company's website.**

In all this picture, Romania is the country with the most developed market and, especially, with the lowest dependence on imported gas. Adding to this landscape, in addition to its favourable geostrategic position, the newly-revealed resources in the Black Sea and the future potential created by the shale gas, Romania could clearly play a defining role in the region.

In this context the natural gas transmission infrastructure is probably the most important factor, and **Transgaz** is currently facing a major challenge: **the development - in the shortest time possible - of gas transmission corridors that would ensure the required degree of interconnectivity at European level as well as enough gas transmission potential in harnessing the resources on the local and regional market.**

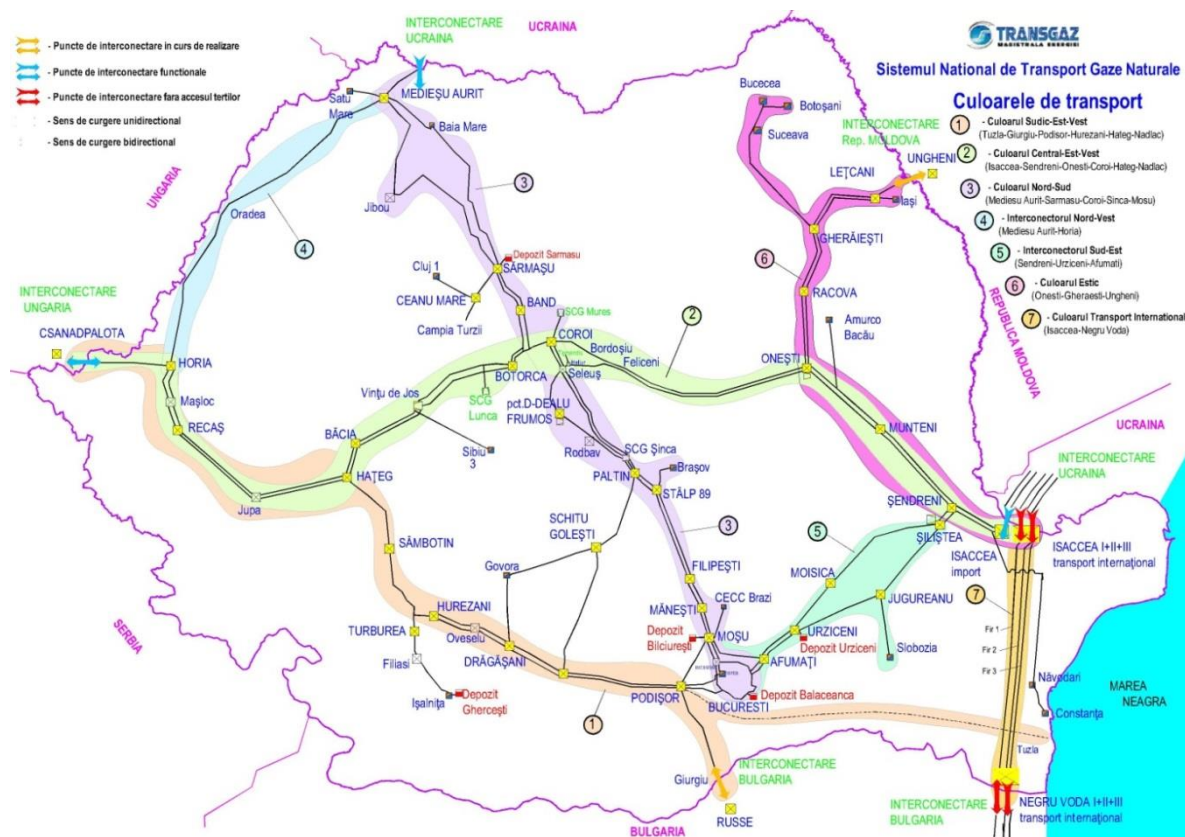


Illustration 4 – The natural gas transmission corridors of the NTS

Given the estimated potential of the natural gas reserves in the Black Sea, in order to provide transmission of the volumes retrieved from the off-shore production, needed for the domestic consumption and in case of excess volumes to ensure their export on the markets of the European Union and the Republic of Moldova, **SNTGN TRANSGAZ S.A.** intends to implement in the coming years, an ambitious plan for the development of the gas transmission infrastructure of about 1.5 billion euros, contributing to the development of a regional energy corridor.

Specifically, it is intended to develop two transport corridors in Romania (a **southern-Danubian one**, in a first step, and a **central one**, in a second step, in the event that the operation of the Black Sea exceeds the current estimates) that will ensure the connection between the gas reserves in the Black Sea area and the Central-Western European markets, while ensuring the backbone of the Romania’s national transmission system for gas.

Thus the project proposed in the **10 Year National gas transmission system development plan 2014 – 2023** are:

1. Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor;
2. Development in Romania of the Southern Transmission Corridor for retrieving the gas from the Black Sea shore
3. Project on the interconnection of the national transmission system with the international gas transmission pipelines;

4. Project on the development of the NTS in the North East of Romania in order to improve the gas supply to the area and to ensure the transmission capacity to Republic of Moldova;
5. Development in Romania of the Central Transmission Corridor for retrieving the gas from the Black Sea shore.

### The Southern Danube Corridor

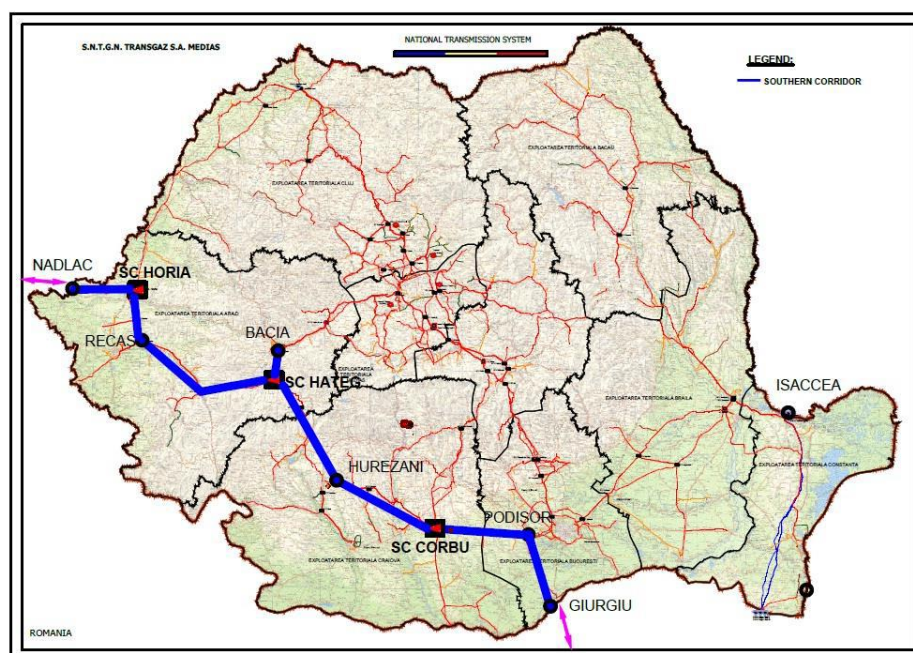
Consists in developing the following two projects:

#### a) Development on the Romania territory of the national gas transmission system on the Bulgaria - Romania - Hungary - Austria corridor

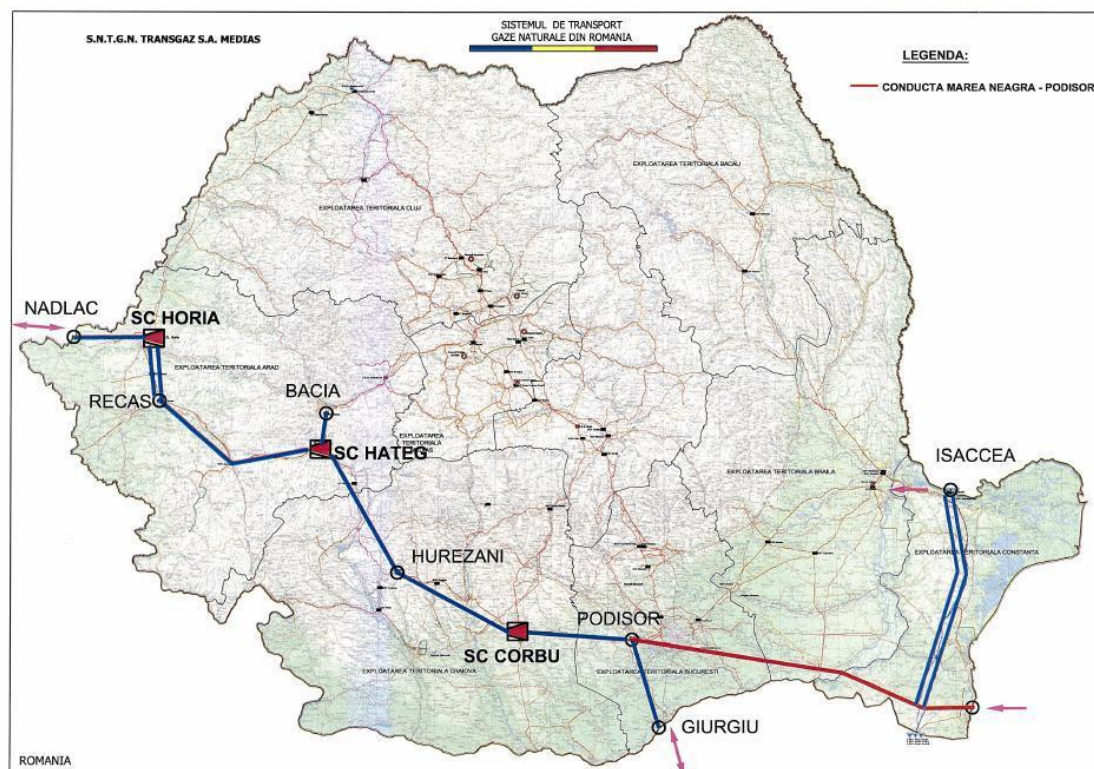
The project aims to create transmission capacity between the interconnection points of the Romanian and the Hungarian system, namely that of Bulgaria.

For this purpose it is necessary to build a pipeline with a length of approximately 550 km on the **Podisor - Corbu - Hateg - Horia** route and **3 new compression stations at Hateg, Horia and Corbu**.

The estimated total value of the investment is **560 million euros**, of which **414 million euros for the new gas transmission pipelines** and **146 million euros for the new compression stations**. The estimated time for completion is April 2019.



#### b) Development of the Southern Danube Corridor in Romania for extracting gas from the Black Sea (the Tuzla - Podisor pipeline)

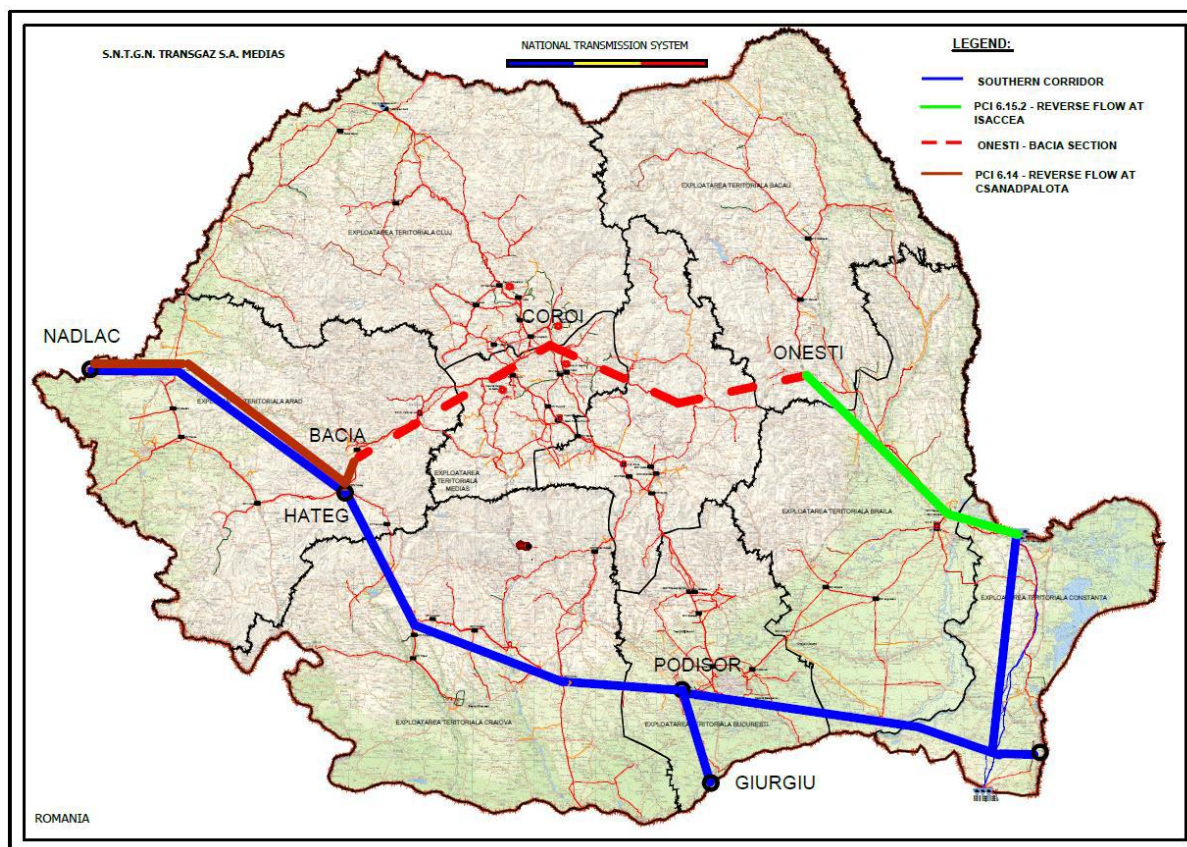


The second project will create a connection between **the Black Sea shore and the Podisor technological node**, the gas from the offshore exploitation can be extracted in the continuity of the Southern Danube Corridor (Bulgaria - Romania - Hungary - Austria) and transmitted to the Central-Western European markets. In this regard a new pipeline with length of **285 km** is required. The cost of this project is about **262 million euros**, the estimated time for completion is April 2019.

## II.2 The central corridor (Isaccea-Onesti-Coroi-Hateg-Horia)

Assuming that the transmission capacity needed for the capitalization of the Black Sea gas on the Central-Western European markets exceeds the transmission potential of the Southern Danube Corridor, TRANSGAZ planned the development of the **central corridor** that practically follows the route of some pipelines in the current system but which currently operate at technical parameters that are unsuitable for a thoroughfare artery.

The project consists in **the rehabilitation of about 400 km** of pipeline of the current system, the **replacement / construction of 400 km of new pipeline** and **four compression stations** on the route of this corridor, with an installed capacity of 66 MW. The investment is estimated at **544 million euros**.



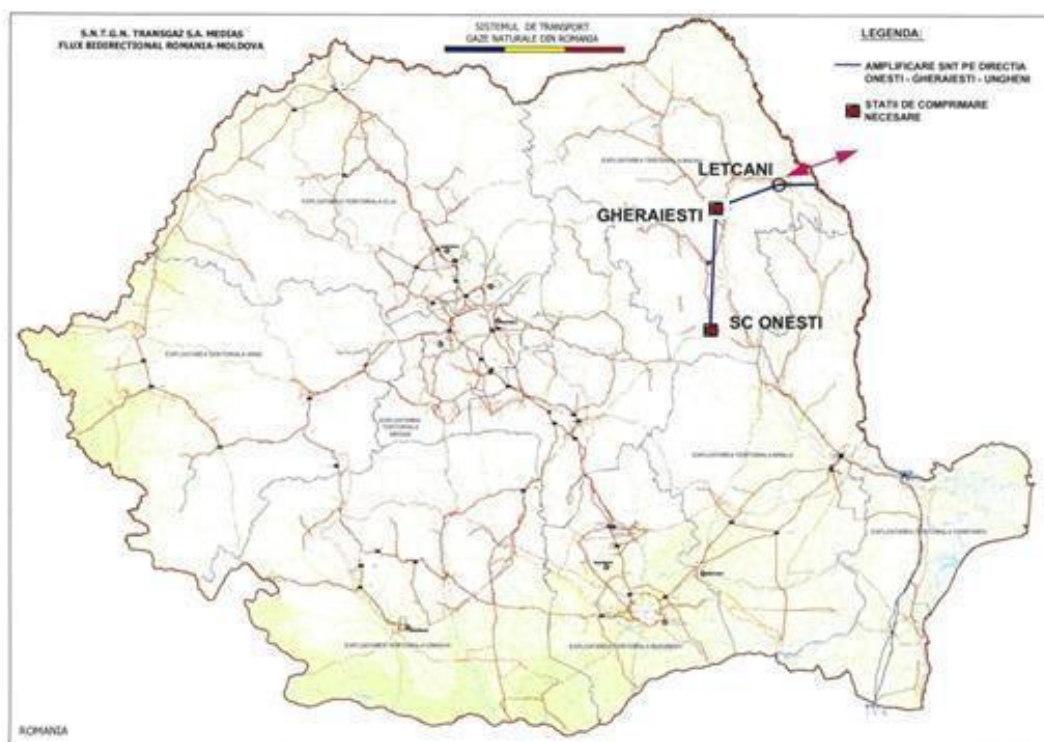
## II.3 Development of the National Transmission System in view of increasing the transmission capacity in the North-Eastern region of the country and on the Romania - Republic of Moldova interconnector

In order to ensure the parameters stipulated in the data sheet of the project to implement the interconnection of the National Transmission System for Gas with the similar system in the Republic of Moldova it is necessary to carry out further

developments both of the Romanian natural transmission system for gas and of the one in the Republic of Moldova.

The technical solution agreed by the two countries to increase the transmission capacity of the interconnection (1.5 bn m<sup>3</sup>/year (171,000 m<sup>3</sup>/h) at a pressure of 38 bar at the border) is estimated at **110 million euros** and consists of building the following objectives:

- New compression station at Onesti
- New compression station at Gheraiesti
- New transmission pipeline Dn 700 Onesti – Gheraiesti with a length of 103 km
- New transmission pipeline Dn 700 Gheraiesti – Letcani with a length of 60 km



For the period **2014 - 2020** the most important European funding programme of energy infrastructure projects is the “**Connecting Europe Facility**” (CEF).

The programme provides the possibility of co-financing (50% non-refundable) for studies and works only for projects that have the status of **PROJECTS OF COMMON INTEREST (PCI)**, status conferred by document of delegation of the European Commission. The existence of projects promoted by TRANSGAZ with PCI status does not also confer the certainty of the EU co-financing that depends on budget limitations, strict evaluation criteria and geo-strategic considerations.

From the projects described above, projects that make up **the two corridors on the Romanian territory, on the current list of projects of common interest** are the following:

*1. Development on the Romanian territory of the national gas transmission system on the Bulgaria - Romania - Hungary - Austria corridor. (The Southern Danube Corridor) - PCI 7.1.5*

*2. Interconnection between the national transmission system with the international transmission system and ensuring the reversible flow at Isaccea - PCI 6.15 (part of the central corridor).*

*3. Developments needed in the transmission system to ensure reverse flows on the Romania - Hungary interconnection (part of the central corridor).*

Please note that **Transgaz** proposed to include on the second list of projects of common interest (in 2015) all the projects that make up the two corridors so as to maximize the opportunities to attract funding under this program (CEF). In addition to the potential development through CEF, “**The AGRI Pipeline-Romanian section (the East-West pipeline)**” also has the status of **PCI** (6.22.1)

Taking advantage of its status as **PCI promoter**, TRANSGAZ applied and received a grant of 1.5 million euros for designing compression stations on the Southern Danube Corridor and is currently preparing an investment application to apply in the spring of 2015 for grants for the construction of this project. In order to submit this application it requires the **approval of the ANRE for the cross-border cost allocation in proportion to the benefits to other Member States.**

Given the complexity of the CEF grant approval procedures and the fact that this program, due to the limited funds available compared to the required financing, is a tool of last resort, the company will try to **co-finance both through European funds** allocated to Romania through the Large Infrastructure Operational Programme 2014-

2020 and through **the financial instruments provided by the EBRD, EIB and other financing institutions.**

The NTS development plan for the next 10 years is based on two fundamental initiatives undertaken by the ***Romanian Government, respectively the Government Memorandum on the measures required for connecting the future gas production from the Romanian perimeters in the Black Sea to the National Transmission System (NTS) for gas***, document under which Transgaz concluded a cooperation agreement with Exxon and OMV Petrom and the ***Memorandum of Understanding between the Ministry of Economy, Trade and Business Environment of Romania and the Ministry of Economy of the Republic of Moldova on the preparation of the conditions for the construction of the Iasi-Ungheni high pressure gas pipeline.***

These documents create a solid premise for the identification of the future development needs of the Romanian transmission system. In this respect, based on analyses of technical solutions and - for some of the projects - some pre-feasibility studies, Transgaz proposed the major projects listed above. As a result, these projects are in various stages of analysis and studies without final investment decisions. The final investment decision will be taken only when the elements underlying it will be known, namely the capacity committing application and the funding sources.

The ability of Transgaz to execute this investment programme depends significantly on the lines of action of the long-term national energy strategy and the support of the majority shareholder, the Romanian Government, especially when the programme aims on the one hand, at exploiting the economic resources essential to the Romania's welfare in the near and distant future and on the other hand at increasing the confidence of foreign investors in Romania's ability to create favourable development conditions and to attract foreign investments.

### **3.3 Analysis of the corporate activity**

#### **3.3.1 Activity on the capital market**

**SNTGN TRANSGAZ SA Mediaş**, a dynamic company, able to align its activity to the requirements of the current internal and international context in which it operates, managed to also perform on the capital market, **being, at its 7 year of listing, with a capitalization of approximately EUR 690 million, the 7<sup>th</sup> company in the top 10 companies listed at the Bucharest Stock Exchange.**

**The TGN share** is a portfolio, attractive share, because of the object of activity of the company, the status of monopoly held by Transgaz in the transmission of natural gas, the position of the company on the national and international energy market, the robust financial profile and the company's ability to generate performance, stable and predictable income, the attractive dividend policy and the quality of the administration act of the new company management.

##### **3.3.1.1 Features and evolution of the securities issued by Transgaz**



In order to analyze the Transgaz capital market activity in 2014, the following grounds were taken into account:

- Registration of the transfer of a number of 6,888,840 shares from the account of the Romanian State through the Ministry of Public Finance in the account of the Romanian State through the General Secretariat of the Government according to the provisions of GEO no. 6/12.02.2014;
- The provisions of GEO no. 86/17.12.2014 on measures to reorganize the central public administration, amending and supplementing certain normative acts, the exercising of the rights and obligations arising from the quality of TRANSGAZ shareholder of the Romanian State shall be performed by the Ministry of Economy, Trade and Tourism.

Thus:

- In 2014 the **average closing price of the TGN share** met an overall increasing trend, starting from RON 186.22/share in January 2014 and reaching RON 262.9/share in 30 December 2014, **meaning a 41.2% increase**, with small decreasing oscillations in May and June 2014 due to dividend payment;
- **The number of shares in the Transgaz free float** increased from 11.5025% in January 2013 to 41.4903% in January 2014, determining an increase in the traded volumes and transaction values;
- In 2014 **the monthly average of the traded volumes** had overall higher values over the entire period analyzed as compared to the same period of 2013;
- **The main stock indicators** significantly increased between January and December 2014 as compared to the same period of 2013, except for the yield of the dividends (DIVY) which went through a decline, from 11.49 at 31.12.2013 to 6.69 at 31.12.2014 due to a dividend payout ratio of 60% in 2014;
- **The market capitalization of the company** at 31.12.2014 was of RON 3.10 billion (Euro 690.4 million) and RON 900 billion (Euro 204.1 million) over the level registered on 31.12.2013;
- Following the market capitalization values recorded by the company, **Bucharest Stock Market placed Transgaz on the 7<sup>th</sup> place in TOP 10 of the companies listed on the BSE**;
- As regards the **number of shareholders**, it fluctuated for the whole period from listing to the present, so therefore at the date of registration for dividend payment for 2013 and 19 May 2014, Transgaz has a number of 8.247 shareholders, 3% less than it had at the end of 2013. At 31.12.2014 the number of shareholders was 8,226;
- The payment of the dividends for 2013 started at 29 July 2014.

## TGN share

After the record date for the dividend payment, namely 14.06.2014, the Transgaz share had a slightly downward trend reaching an average closing price in June of RON 192.53 /share.

In 2014, the evolution of the TGN share price had an upward trend throughout the analysis period, due to particularly to the very good quarterly results reported by the company and also to Romania's economic evolution.

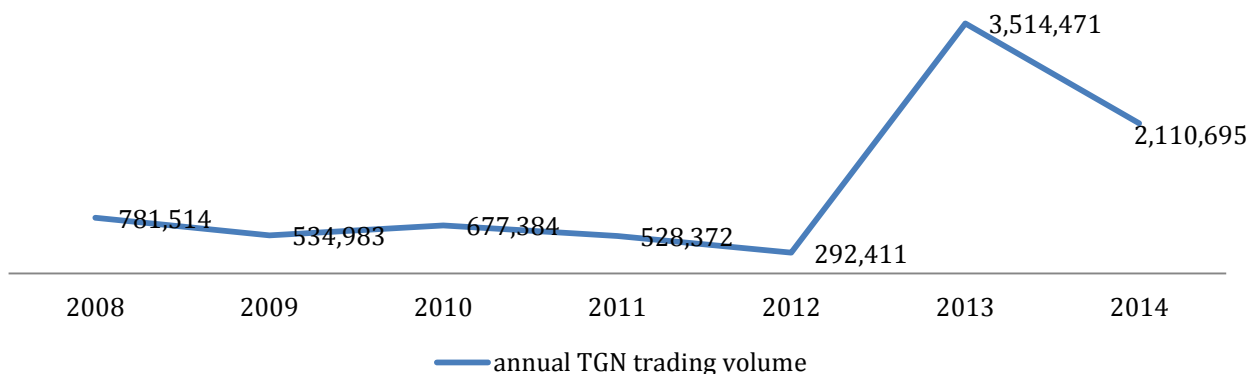
**Thus, if at the beginning of the year the TGN share price was RON 186.22/share, after the submission of the annual 2013 results it rose to RON 202.35/share in middle May 2014.**

Graphically, the value of the average closing price of the Transgaz share during the listing period and until 31.12.2014 is the following:

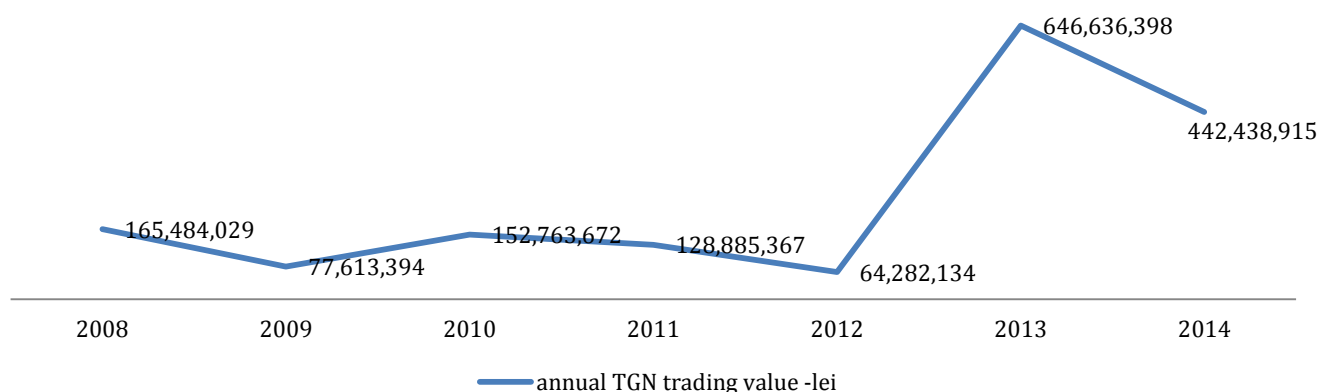
**Graphic 40 - The closing price of the TGN share in the period 2008- 2014**

The presented analysis shows that in the period of the 7 years from the listing the closing price of the TGN share evolved from a minimum Ron 122/share in 2008 to a historic maximum of RON 262.9/share in 30 December 2014.

**Between 2008-2014, the annual volumes traded and the annual values of the transactions of the TGN shares are graphically as follows:**



Graphic 41 - Annual volume of TGN transactions between 2008- 2014



Graphic 42 - Annual value of TGN transactions between 2008- 2014

#### Stock indicators: P/BV, EPS, PER, DIVY

Date	P/BV	PER	DIVY	EPS
2008	0.92	7.36	7.92	20.29
2009	0.84	9.82	6.67	25.36
2010	1.39	8.38	4.65	31.96
2011	1.02	6.99	12.88	31.94
2012	0.79	8.26	13.65	32.24
2013	0.73	6.62	11.49	27.97
2014	0.92	9.25	6.69	28.41

where

**P/BV - (Price to book value)** - Rate price for the book value of a share - it expresses the coverage of the book value of a share on account of its quotation (Own capitals/no. of shares).

**The book value of the TGN share at 31.12.2014 was of RON 286.34/share**, increasing at RON 260.97/share, which is by 9.7% as compared to the book value per share recorded at 31.12.2013.

**PER - (Price to earnings ratio) P/E** -The share price/profit per share - it shows how investors are willing to pay for a monetary unit from the company profit. It is noted that at 31.12.2014 the value of this indicator increased compared to the similar period of the last year, which shows an increase in the trust of investors regarding the company.

**EPS - Earnings per share - Profit per share** (net profit/number of shares) - it measures the part of profit which returns for each share

In the period analyzed the main stock indexes had a significant increase in 2014 compared to 2013, excluding dividend yield (DIVY), which decreased due to the decreasing of the rate of distribution of the company profit as dividends, from 85.00672% in 2013 to 60.02435% in 2014, justified by the need for accumulation of funds to finance the investment plan in the following years.

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	15.8	2.83	9.56
SNAM Rete Gas	Italy	12.8	2.26	10.21
Fluxys	Belgium	29.23	2.54	11.12
<b>Media</b>		<b>19.27</b>	<b>2.54</b>	<b>10.29</b>
<b>Transgaz</b>	<b>Romania</b>	9.25	1.01	4.3
Premium /Discount		-52%	-60%	-58%

Table 32 - The value of stock indexes within Transgaz, compared to similar companies in Europe

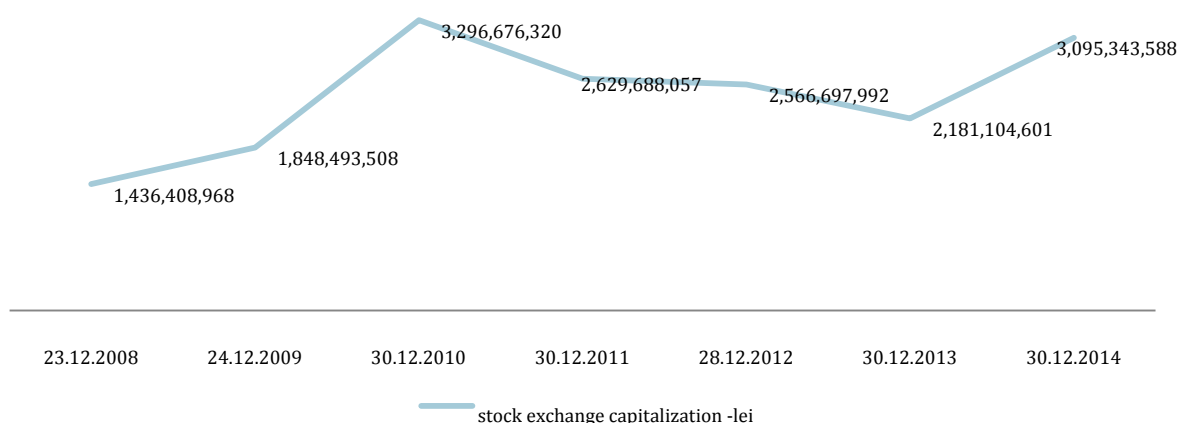
#### TGN weight in the composition of stock indices (BET, BET-C, BET-NG, BET-XT)

NAME OF THE STOCK INDEX	31.12.2014	POSITION
<b>BET</b>	5,81%	7
<b>BET-TR</b>	5,81%	7
<b>ROTX</b>	4.68%	7
<b>BET-NG</b>	11.00%	4
<b>BET - XT</b>	5.15%	7
<b>BET-BK</b>	4.76%	9

#### Market capitalization

Market capitalization	RON	Euro
23.12.2008	1,436,408,968	360,435,855
24.12.2009	1,848,493,508	437,182,136
30.12.2010	3,296,676,320	769,388,611
30.12.2011	2,629,688,057	608,766,363
28.12.2012	2,566,697,992	579,560,140
30.12.2013	2,181,104,601	486,343,479
30.12.2014	3,095,343,588	690,400,943

The company's market capitalization at 31.12.2014 was of RON 3.10 billion (Euro 690 million) and RON 920 million (Euro 204 million) above the level registered at the end of 2013.



**Graphic 43- Evolution of the market capitalization between 2008- 2014**

Market capitalization is an indicator of the potential of a stock, representing the market value of the listed companies, determined as the sum of the products of the number of shares issued by each listed company and its corresponding market price.

**Market capitalization** is calculated for all companies listed on the stock exchange. BSE determines the market capitalization for a trading session as the sum of the product of the total number of shares issued by each of the companies listed on the stock exchange and the last closing price recorded on the Regular market, calculated for all listed companies.

### Modifications in the shareholding structure

As a result of the enforcement of the provisions of **Government Emergency Ordinance no. 6/2014** in February 2014 was registered the transfer of a number of 6.888.840 shares, representing 58.5097% of the share capital, from the account of the Romanian State through the Ministry of Public Finance in the account of the Romanian State through the General Secretariat of the Government.

According to GEO no. 86/17.12.2014 on measures to reorganize the central public administration, amending and supplementing certain normative acts, **the exercising of the rights and obligations arising from the quality of TRANSGAZ shareholder of the Romanian State shall be performed by the Ministry of Economy, Trade and Tourism.**

### Synthetic structure of Transgaz shareholding:

Shareholder name	Number of shares	Percentage %
------------------	------------------	--------------

The Ministry of Economy, Trade and Tourism	6,888,840	58.5097
Free float – Other shareholders (natural and legal persons)	4,885,004	41.4903
Total	11,773,844	100.00

### Evolution of the number of shareholders:

As regards the number of shareholders, it oscillated throughout the period from listing until the present, therefore at the date of 31.12.2014, Transgaz has a number of 8.226 shareholders.

**Graphic 44- The evolution of the number of Transgaz shareholders between 2008- 2014**

Stock performance, improved corporate image and strengthening credibility among financial analysts and actual and potential investors are certainly the result of the efforts of all company decision makers to optimize over the long term the activity outcomes and the management act quality in line with the strategic sustainable and competitive development of Transgaz.

As a result of these efforts, the number of invitations addressed to Transgaz to participate in national and international events tackling with specific core business themes or topics of general interest or related to capital market increased.

#### 3.3.1.2 Dividend policy

*The amount of dividends due to shareholders shall be established in accordance with **Government Ordinance no. 64** of 30 August 2001 on the allocation of profit to national companies, national companies and companies with capital fully or mainly owned by the state, autonomous administrations, approved through Law no. 769/2001, subsequently amended and supplemented, which stipulates in Art. 1, letter f) the allocation of the book profit remained after deduction of the income tax **`a minimum 50% dividends for domestic companies, fully or mainly owned by the state`**.*

In 2014 the amount proposed for dividends was established by applying the rate of 50.00156% on the 2014 net profit reinstated with the amount representing the participation of the employees to profit affecting the gross profit before taxation.

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

Through Decision no. 1 of the General Ordinary Meeting of Shareholders from 28.04.2014 published in the Official Gazette of Romania, part IV, no. 2826/20.05.2014 was approved the payment of a gross dividend corresponding to the 2013 fiscal year, amounting to 17.58 Ron/share.

**On 29 July 2014 began the payment of dividends corresponding to 2013 fiscal year.** The payment is carried out through the units of the bank **BRD GROUPE SOCIETE GENERALE**, for the shareholders registered at the **registration date 19 May 2014**.

### **Intention of Transgaz to purchase own shares**

Not applicable

### **Number and face value of shares issued by the mother company owned by branches**

Not applicable.

### **Bonds and/or other debt securities**

Not applicable.

### **3.3.2 Significant mergers or reorganizations during the financial year**

In 2014 no mergers or reorganizations took place at the company level.

### **3.3.3 Corporate Governance**

Corporate governance is a concept of very wide connotation, which includes elements such as: managers' responsibility for the accuracy of information contained in the financial statement, the existence of very tight deadlines for financial reporting, communication and full transparency on the financial results, the transparency of the internal audit, of processes and external audit.

In detail, corporate governance refers to how rights and responsibilities are divided between categories of participants to the company activity, such as the board of administration, managers, shareholders and other interest groups, while specifying how decisions are made as regards the company activity, how strategic objectives are defined, which are the means of attaining them and how is economic performance monitored.

Practice confirms the need to intensify efforts of accepting corporate governance, as it has been observed that organizations which are dedicated to the implementation of its principles have even managed to maximize performance.

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

In this context, the implementation and development of corporate governance principles, the development of responsible, transparent business practices becomes more and more a necessity in the substantiation and application of strategies and business policies of companies.

Adhering to this goal, Transgaz pursues that through the effective application of the provisions of Rules of Corporate Governance it would ensure a rigorous framework of sizing and regulating the principles of corporate governance at the level of the company.

**The rules of corporate governance of the company** was endorsed by the Board of Administration through Decision n. 3/18.01.2011 and approved by the General Meeting of Shareholder in 2 March 2011, through GMS Decision no. 1/2011 (art. 4).

The document has a structure which complies with requirements in the field and comprises a number of **9 chapters**, as follows:

- |   |
|---|
| - Chapter 1 – <b>Corporate governance structures</b> : the Board of Administration, Advisory Committees, Executive Management. The executive management responsibilities are established through the Rules of Organization and Operation of Transgaz and through the Code of Professional Conduct are regulated the ethical norms of conduct compulsory for all employees and are applied in all organizational and hierarchical structures of the company; |
| - Chapter 2 - <b>The rights of shares owners</b> : the rights of the share owners, the treatment of shares owners;  |
| - Chapter 3 - <b>The Board of Administration</b> : the role and obligations of the Board of Administration, the structure of the Board of Administration, the appointment of the members of the Board of Administration and the remuneration of the members of the Board of Administration;   |
| - Chapter 4 – <b>Transparency, financial reporting, internal control and risk management</b> : transparency and financial reporting;  |
| - Chapter 5 - <b>the conflict of interests and transactions with persons involved</b> : the conflict of interests; transactions with persons involved;  |
| - Chapter 6 - <b>The regime of corporate information</b> ;  |
| - Chapter 7 - <b>Social responsibility</b> ;  |
| - Chapter 8 - <b>The management system</b> ;  |
| - Chapter 9 – <b>Final provisions</b> .   |

Corporate governance reporting must be presented in the Report of the Board of Administration, starting from 2010, for all companies listed on the stock exchange.

The listed companies which decided to implement the corporate governance principles shall compulsorily fill, starting from 2011 the declaration **`You apply or explain`**.



Transgaz **has adhered to the Code of Corporate Governance of the Bucharest Stock Exchange** and applies the recommendations of this code, according to the Declaration on the compliance or non-compliance with the provisions of the Corporate Governance Code (the Declaration “you apply or explain”) the recommendations corresponding to principles no.: 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 15. 17.18 and it explains the recommendations corresponding to principles no. 14. 16 and 19.

### **The Advisory Committees established at the level of the Board of Administration**

The activity conducted in 2014 by the five advisory committees established at the Board of Administration level under the provisions of:

- Art. 140<sup>2</sup> of Law 31/1990 on trading companies, subsequently amended and supplemented, republished,
- the Code of Corporate Governance of BSE,
- Art. 4 of the Decision of the Board of Administration no. 7 of 27 May 2013
- Art. 9 of the Decision of the Board of Administration no. 13 of 29.07.2013
- Art. 4 of the Decision of the Board of Administration no. 2 of 10.02.2014 and
- Art. 1 of the Decision of the Board of Administration no. 21 of 16.06.2014

envisaged the monitoring of actions conducted by the members of advisory committees in accordance with the areas in which they were designated and is reflected in their quarterly activity report, which highlights:

- How were consulted by the members of the Advisory Committee the materials and documents of various organizational structures of SNTGN Transgaz SA;
- The analyses carried out by the members of Advisory Committee regarding the content of submitted documents and materials;
- The proposals / measures / recommendations of the Advisory Committees members regarding the contents of materials and documents submitted for analysis and endorsement/ approval of the Board of Administration and
- the documents through which the Board of Administration decided in plenary with regard to the contents and issues addressed in documents submitted for analysis / endorsement / approval

The manner of presenting the monitoring and evaluation report of the activity of Advisory Committees established at the level of the Board of Administration in 2014 was conceived in a way which would reflect precisely and in a comprehensive manner the whole activity regarding the analysis, consultation and decision-making process regarding the company activity.

No.	Description	Responsible	Committee structure
1.	Report regarding the monitoring and evaluation of the activity of the Advisory Committee of Nomination and Remuneration during January - December 2014	The Advisory Nomination and Remuneration Committee	<b>Sterian Ion</b> <b>Cernov Radu Ștefan</b> <b>Iliescu Bogdan George</b>
2.	Report regarding the monitoring and evaluation of the activity of the Advisory Committee of Strategy and Development during January -	The Advisory Strategy and Development Committee	<b>Sterian Ion</b> <b>Văduva Petru Ion</b> <b>Iliescu Bogdan George</b> <b>Neacșu Vlad Nicolae</b> (until 24 January

	December 2014		2014) <b>Vulpescu Dumitru Remus</b> (from 10 February 2014 - according to BoD Resolution 2/10.02.2014) <b>Rizoiu Andrei</b> (from 16 June 2014 - according to BoD Resolution 21/16.06.2014)
3.	Report regarding the monitoring and evaluation of the activity of the Advisory Regulatory Committee and Relations with Public Authorities during January - December 2014	The Advisory Regulatory Committee and Relations with Public Authorities	<b>Sterian Ion</b> <b>Văduva Petru Ion</b> <b>Cernov Radu Ștefan</b>
4.	Report regarding the monitoring and evaluation of the activity of the Advisory Committee for Safety and Security of SNT during January - December 2014	The Advisory Safety and Security Committee of SNT	<b>Sterian Ion</b> <b>Văduva Petru Ion</b> <b>Neașu Vlad Nicolae</b> (until 24 January 2014) <b>Vulpescu Dumitru Remus</b> (from 10 February 2014 - according to BoD Resolution 2/10.02.2014) <b>Rizoiu Andrei</b> (from 16 June 2014 - according to BoD Resolution 21/16.06.2014)
5.	Report regarding the monitoring and evaluation of the activity of the Advisory Audit and Rating Committee during January - December 2014	The Audit and Rating Advisory Committee	<b>Cernov Radu Ștefan</b> <b>Iliescu Bogdan George</b> <b>Neașu Vlad Nicolae</b> (until 24 January 2014) <b>Vulpescu Dumitru Remus</b> (from 10 February 2014 - according to BoD2/10.02.2014) <b>Rizoiu Andrei</b> (from 16 June 2014 - according to BoD Decisions 21/16.06.2014)

### Appointment of the Board of Administration members

The company's Nomination and Remuneration Committee coordinates the Board of Administration member appointing process and issues recommendations for the position of administrator and for the Board of Administration vacancies, following a formal, well-established and transparent procedure.

The list of candidates for the position of administrator must be submitted to the company at least 15 days before the date set for the holding of the General Assembly of the Shareholders, and published on the company's website in due time.

### Remuneration of the Board of Administration members

The company's Nomination and Remuneration Committee sets the administrators' and directors' remuneration policy. The Committee has to present to the Board of Administration proposals regarding the administrators' and directors' remuneration, compliant with the company's remuneration policy.

The remuneration of the non-executive directors is proportional to the responsibilities and to the time dedicated to exercising their obligations.

The total amount of the direct and indirect remuneration of the administrators and directors, broken down by fixed and by variable components, is presented in the Annual Report.

### **Transparency**

SNTGN TRANSGAZ SA periodically and continuously provides to the media and on the company's website ([www.transgaz.ro](http://www.transgaz.ro)) reports on the important company events, including without limitation, the financial situation, the performance, the ownership and management.

The company prepares and makes available relevant information periodically and continuously, meeting the requirements of the International Financial Reporting Standards and of the environmental, social and corporate governance standards.

Information is offered both in Romanian and in English. The company holds meetings with the financial analysts, brokers, market specialists and investors four times a year, according to the financial communication calendar of the BSE.

### **Financial reporting**

TRANSGAZ's Audit and Rating Committee analyzes periodically the efficiency of the financial reporting, internal control and risk management system of the company.

The Audit and Rating Committee performs audit analyses and prepares audit reports based on them, and verifies the compliance of the audit reports with the audit plan approved by the company.

The advisory Committee assists the members of the Board of Administration in monitoring the reliability and integrity of the financial information supplied by the company, in particular by revising the relevance and consistency of the accounting standards applied (the consolidation criteria included) in monitoring the rating of SNTGN Transgaz SA.

The Committee cooperates with the company's external financial auditor, who presents to the Committee a report of the relationship existing between the external auditor and the company and its group.

The Audit and Rating Committee monitors the independence and objectivity of the financial auditor in particular by monitoring the rotation of the partners of the audit firm dedicated to the company, and makes recommendations to the Board of Administration regarding the selection, appointment, reappointment, replacement of the financial auditor and the terms and conditions of his/her remuneration.

### **Conflict of interests**

The members of the Board of Administration must take decisions in the company's exclusive interests and have the obligation to refrain from taking part in any deliberation or decision that creates a conflict between their personal interests and those of the company or any subsidiary controlled by the company.

### **Trade with the parties involved**

Each member of the Board of Administration must ensure that a direct or indirect conflict of interests with the company or a subsidiary controlled by the company is avoided, and in case such conflict arises, he/she has the obligation to refrain from deliberating or voting on the relevant issue, in accordance with the legal provisions.

For ensuring the procedural fairness of the transactions with the parties involved, the members of the Board of Administration must apply without limitation the following criteria:

- the maintaining of the Board of Administration's or General Assembly of the Shareholders' competence, as appropriate, for the approval of the most important transactions;
- the requiring of a prior opinion of the internal control body with regard to the most important transactions;
- the entrusting of the negotiations related to such transactions to one or several independent administrators or to the administrators who have no ties with the related parties;
- the recourse to independent experts.

### **Corporate information regime**

The Board of Administration sets the corporate information sharing policy, in compliance with the laws in force and the company's Articles of Incorporation. The information sharing policy must guarantee equal access to information for the shareholders, investors and key shareholders, and must not allow abuses regarding confidential information or information of transactions with related parties.

### **Executive management**

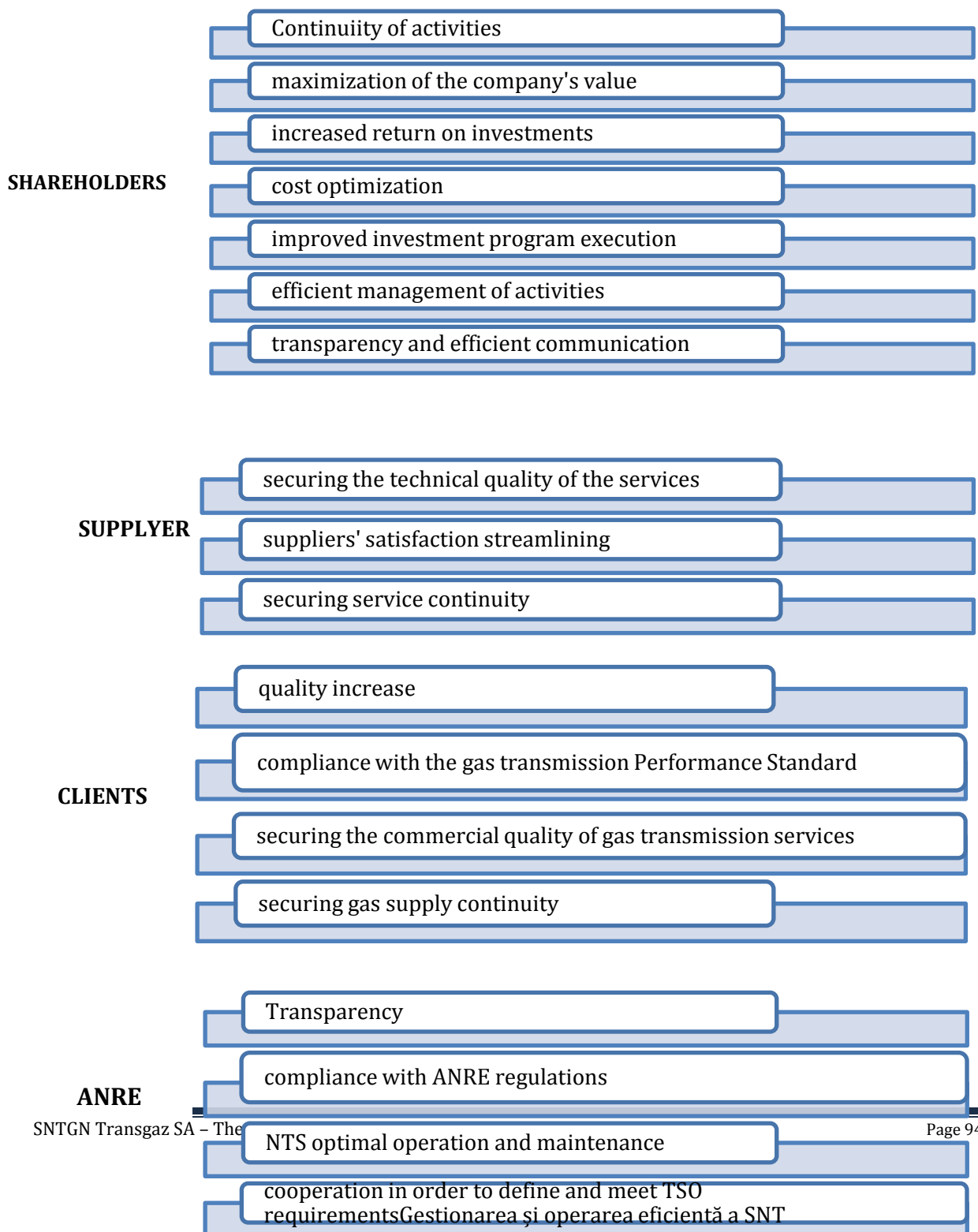
The management of SNTGN TRANZGAZ SA is ensured by the director - general, who has two deputy directors - general and executive directors subordinated. The director - general is appointed by the Board of Administration from the board members or outside such board and is confirmed by the General Meeting of the Shareholders.

### **Relation with stakeholders**

The general and strategic objectives of the SNTGN TRANSGAZ activity are established in the context of alignment to the requirements of the new European energy policy on energy safety and security, sustainable development and competitiveness.

In this context, the implementation and development of the corporate governance principles, development of responsible, transparent business practices becomes more and more a necessity in the substantiation and application and strategies and business policies of companies.

Adhering to this goal, SNTGN TRANSGAZ SA Mediaş pursues also through its own governance rules to ensure a rigorous framework of sizing and regulating corporate governance at the society level, to develop an efficient and proactive relational system in relation to shareholders and stakeholders.



<b>STATE AUTHORITIES</b>	Transparency and communication
	efficient cooperation
	professional ethics
	accurate and timely reporting
<b>MEDIA</b>	direct acces to public data
	improvement of the company's image and reputation
	professional deontology
<b>PUBLIC OPINION</b>	Transparency
	improve of the company's image
	corporate social responsibility
	environmental respect and sustainability
<b>EMPLOYEES</b>	Transparency and communication, professional ethics
	operational stability
	social dialogue
	the company's sustainable development
	appropriate motivation
	improvement of the organisational climate

The Transgaz administrators consider that, by acting in the spirit of the best corporate governance practices, the proposed objectives may be attained and the capital of trust

of stakeholders in the company's capabilities to ensure maximization of the activity efficiency would increase.

### Communication and Social Corporate Responsibility

A part of the sustainable development strategy of SNTGN TRANSGAZ SA, **the communication and social responsibility policy** has as objective to permanently increase the transparent level of communication and accountability of the company towards employees, shareholders, partners, community and environment and to streamline all actions conducted in this regard. The account of social involvement actions of Transgaz is published on the company's web page.

### Organizational conduct

The SNTGN TRANSGAZ SA Code of Professional Conduct sets the ethical rules of professional and social behaviour necessary for obtaining social and professional reports appropriate for creating and maintaining the high-level corporate prestige and values.

### **LEGAL ACTS CONCLUDED UNDER ART. 52 PARAGRAPH (1) AND PARAGRAPH (6) OF GEO no. 109/30.11.2011**

In 2014, the company concluded the following legal acts with companies in which the Romanian State exercises direct or indirect control and whose total value represents at least the RON equivalent of EUR 50,000:

<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SNGN Romgaz SA</b>
Contract no.	Contract no. 20/2009 – extended by Addendum No.12/2014
Contract scope	Domestic gas buy and sell services
Mutual debts	RON 95,783,900.00 estimated
Contract value previously reported	RON 144,285,262.00 without the VAT estimated
Modified contract value	RON 141,759,883.00 without the VAT estimated Note: - it was estimated based on an initial technological consumption programme; - it was re-estimated using the revised technological consumption programme
Penalties and warranties stipulated	- guarantees of 80% of the value of the largest monthly quality contracted; - penalties of 0.1% of the amount remaining unpaid at the due date, for each day of delay; If the penalties are not paid, the seller shall be entitled to stop the entire delivery of the gas within

	5 days from invoice submission date.
Payment terms and modalities	90 days from the invoice issuing date
Contract duration	01.04.2014 - 31.12.2014
<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SNGN Romgaz SA</b>
Contract no.	Contract no. 4787/2014
Contract scope	Underground gas storage services
Mutual debts	-
Contract value previously reported	RON 2,726,320.00 without VAT estimated
Modified contract value	RON 2,785,680.00 without VAT estimated Note: - the initial estimation was based on an average monthly tariff; - later, the estimation was based on the regulated tariff for the storage cycle 2013 - 2014
Penalties and warranties stipulated	- no guarantees - penalties in a percent equal to the delay interest due for the non-payment in due time of the budgetary obligations, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included; - in case of failure to pay, the cessation of the gas underground storage withdrawal services, with a prior notice of 3 calendar days, starting from the 31st day from the invoice issuing date, the execution of the guarantee established, the right to retain the stored amount of gas; - if the measures foreseen are not enough to ensure the covering of the entire prejudice of the service provider, the beneficiary shall indemnify the service provider according to the applicable laws.
Payment terms and modalities	15 days from the invoice issuing date
Contract duration	16.04.2014 -15.04.2015
<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SC Termo Calor Confort SA</b>
Contract no.	Contract no. 36/24.07.2014
Contract scope	Gas transmission services
Contract value	RON 7,473,225.60 without VAT (estimated)
Mutual debts	-
Penalties and warranties stipulated	Payment in advance
Payment terms and modalities	15 days from the invoice issuing date



modalities	
Contract duration	01.08.2014 – 01.10.2015
Value achieved from the contract	-
<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SNGN Romgaz SA</b>
Contract no.	Contract no. 33 / 24.07.2014
Contract scope	Gas transmission services
Contract value	RON 56,446,935 without VAT (estimated)
Penalties and warranties stipulated	Letter of bank guarantee
Payment terms and modalities	15 days from the invoice issuing date
Contract duration	01.08.2014 – 01.10.2015
Value achieved from the contract at 31.12.2014	-
<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SC Electrocentrale Galați SA</b>
Contract no.	Contract no. 16 / 24.07.2014
Contract scope	Gas transmission services
Contract value	RON 20,744,869 without VAT (estimated)
Penalties and warranties stipulated	Letter of bank guarantee
Payment terms and modalities	15 days from the invoice issuing date
Contract duration	01.08.2014 – 01.10.2015
Value achieved from the contract at 31.12.2014	-
<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SC Electrocentrale Bucuresti SA</b>
Contract no.	Contract no.15 / 24.07.2014
Contract scope	Gas transmission services
Contract value	RON 138,700,000 without VAT (estimated)
Penalties and warranties stipulated	Letter of bank guarantee
Payment terms and modalities	15 days from the invoice issuing date
Contract duration	01.08.2014 – 01.10.2015
Value achieved from the contract at 31.12.2014	-
<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and Complexul Energetic Hunedoara</b>
Contract no.	Contract no. 9 / 24.07.2014

Contract scope	Gas transmission services
Contract value	RON 6,286,636 without VAT (estimated)
Penalties and warranties stipulated	Guaranteed account
Payment terms and modalities	15 days from the invoice issuing date
Contract duration	01.08.2014 – 01.10.2015
Value achieved from the contract at 31.12.2013	-
<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SC Electrocentrale Bucuresti SA</b>
Contract no.	Addendum no.1 to Contract no.15 / 24.07.2014
Contract scope	Gas transmission services
Mutual debts	N/A
Contract value previously reported	RON 138,700,000 without VAT estimated
Actual contract value	RON 97,305,222.13 without VAT estimated <b>Note:</b> - company unbundling; - amending of contract value due to the diminishing of the booked transmission capacity.
Penalties and warranties stipulated	<p>Penalties: The non-fulfilment of the invoice payment obligation as stipulated by the contract: - shall incur delay penalties related to the unpaid amount, equal to the delay interest due for the non-payment in due time of the budgetary obligations, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract, in the case of the non-fulfilment of the payment obligation within 15 calendar days from the maturity date;</p> <p>Guarantees: (1) For the purpose of fulfilling their obligations under the contract, either party shall establish a guarantee for the other party in accordance with the Network Code. (2) For fulfilling the obligation under paragraph (1) of this Article, the TSO shall provide the credit rating. The NU is exempted from the obligation to provide the payment guarantee to the TSO conditional on the submission of a credit rating issued by a rating</p>

	<p>agency agreed by both parties, equivalent with that of Transgaz SA.</p> <p>(3) The payment guarantee in amount of 5% of the countervalue of the firm and uninterruptible transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, shall be a letter of bank guarantee or shall be established in cash as a guaranteed account (collateral deposit) and shall be valid 60 calendar days from contract expiration.</p> <p>(4) The financial guarantee shall be activated by the parties within 48 hours from the agreement and signature of the transmission contract.</p> <p>(5) The payment guarantee under paragraph (3) shall be of 10% of the countervalue of the firm and uninterruptible transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, unless, within 90 days from the contract conclusion date, the NU fulfills completely its payment obligations under gas transmission Contract No. 14 /20.06.2013 (for firm capacity booking).</p> <p>(6) The TSO shall be entitled to make claims against the guarantee under this Article within the limits of the damage incurred, unless the NU fulfills its contract obligations completely or partly or if it delays fulfilling such obligations.</p> <p>(7) Prior to making any claim against such guarantee, the TSO shall notify the NU on the non-fulfilled obligations.</p> <p>(8) The TSO shall send the guarantee execution notification by fax within 24 hours from the expiration of the period set at Art.13, paragraph (1), letter a).</p> <p>(9) If the guarantee is executed partly or completely, the NU shall re-establish the guarantee according to paragraph (3) of this Article, within 5 days from execution.</p> <p>(10) The Network User shall not provide the guarantee instrument also if it pays in advance the monthly countervalue of the capacity booked. (10) Utilizatorul rețelei este scutit de la solicitarea instrumentului financiar de garanție și în cazul în care achită în avans contravaloarea lunară a capacității rezervate.</p>
<p>Payment terms and modalities</p>	<p>15 days from the invoice issuing date</p>

Contract duration	01.08.2014 – 01.10.2015
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<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SC Electrocentrale Constanța SA</b>
Contract no.	Contract no. 40 / 28.10.2014
Contract scope	Gas transmission services
Mutual debts	N/A
Contract value	RON 24,402,270.58 without VAT estimated
Penalties and warranties stipulated	<p>Penalties: The non-fulfilment of the invoice payment obligation as stipulated by the contract: - shall incur delay penalties related to the unpaid amount, equal to the delay interest due for the non-payment in due time of the budgetary obligations, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract, in the case of the non-fulfilment of the payment obligation within 15 calendar days from the maturity date;</p> <p>Guarantees: (1) For the purpose of fulfilling their obligations under the contract, either party shall establish a guarantee for the other party in accordance with the Network Code. (2) For fulfilling the obligation under paragraph (1) of this Article, the TSO shall provide the credit rating. The NU is exempted from the obligation to provide the payment guarantee to the TSO conditional on the submission of a credit rating issued by a rating agency agreed by both parties, equivalent with that of Transgaz SA. (3) The payment guarantee in amount of 10% of the countervalue of the firm and uninterruptible transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, shall be a letter of bank guarantee or shall be established in cash as a guaranteed account (collateral deposit) and shall be valid 60 calendar days from contract expiration. (4) The financial guarantee shall be activated by the parties within 48 hours from the agreement and signature of the transmission contract. (5) The TSO shall be entitled to make claims against the guarantee under this Article within the limits of</p>

	<p>the damage incurred, unless the NU fulfills its contract obligations completely or partly or if it delays fulfilling such obligations.</p> <p>(6) Prior to making any claim against such guarantee, the TSO shall notify the NU on the non-fulfilled obligations.</p> <p>(7) The TSO shall send the guarantee execution notification by fax within 24 hours from the expiration of the period set at Art.13, paragraph (1), letter a).</p> <p>(8) If the guarantee is executed partly or completely, the NU shall re-establish the guarantee according to paragraph (3) of this Article, within 5 days from execution.</p> <p>(9) The Network User shall not provide the guarantee instrument also if it pays in advance the monthly countervalue of the capacity booked.</p>
Payment terms and modalities	15 days from the invoice issuing date
Contract duration	01.11.2014 - 01.10.2015

<b>Parties to the Contract</b>	<b>concluded between SNTGN Transgaz SA and SNGN Romgaz SA</b>
Contract no.	Contract no. 20/2009 – extended by Addendum no. 15/2014
Contract scope	Domestic gas buy and sell services
Mutual debts	N/A
Contract value	RON 115,169,455.24 without VAT
Penalties and warranties stipulated	<p>- if the buyer fails to meet its invoice payment obligation within 15 calendar days from invoice maturity date, then it shall pay the seller delay penalties amounting to 0.1% for each day of delay for the amount remaining unpaid. The penalties shall be calculated starting with the first day after the due date, the payment date meaning the seller`s account debiting date included. If the countervalue of the penalties invoiced according to the contract is not paid, the seller shall be entitled to stop the entire delivery of the gas within 5 days from invoice submission date;</p> <p>- the Parties agree to mutually accept guaranties for the fulfilling of the obligations undertaken under the contract. The value of the guaranty shall be equal with at least 80% (the VAT included) of the countervalue of the largest monthly contracted</p>

	quantity according to Annex No. 3 of the contract. The guaranties shall be valid until the fulfilment of all obligations under the contract. The Parties undertake to maintain and renew guaranties until the fulfilment of all payment obligations under the contract.
Payment terms and modalities	15 days from the invoice issuing date
Contract duration	01.01.2015- 30.09.2015

### 3.4 Analysis of the financial activity

#### 3.4.1 Financing standing

According to article 1 of the Order of the Ministry of Public Finance no. 881/25 June 2012 *on the application of the International Financial Reporting Standards by companies having securities admitted to trading on a regulated market*, starting with the financial year 2012, the companies having securities admitted to trading on a regulated market are obliged to apply the International Financial Reporting Standards (IFRS) upon preparation of the individual annual financial statements.

As at 31.12.2014, the company's financial standing is as follows:

Name of indicator	31.12.2012	31.12.2013	31.12.2014	Dynamics (%)		
	Lei thousand	Lei thousand	Lei thousand			
0	1	2	3	4=3/2	5=2/1	6=3/1
Intangible assets	2.495.792	2.533.955	2.534.880	100,04	101,53	101,57
Tangible assets	742.428	694.971	654.840	94,23	93,61	88,20
Financial assets available for sale	105.357	5.953	0	0,00	5,65	0,00
Trade and other receivables			539.216	x	x	x

<b>Fixed assets</b>	<b>3.343.577</b>	<b>3.234.879</b>	<b>3.728.936</b>	115,27	96,75	111,53
inventories	35.828	34.054	36.645	107,61	95,05	102,28
Trade and other receivables	347.782	398.893	401.552	100,67	114,70	115,46
Cash and bank accounts	178.638	267.262	557.868	208,73	149,61	312,29
<b>Current assets –TOTAL</b>	<b>562.247</b>	<b>700.209</b>	<b>996.065</b>	142,25	124,54	177,16
<b>TOTAL ASSETS</b>	<b>3.905.824</b>	<b>3.935.088</b>	<b>4.725.001</b>	<b>120,07</b>	<b>100,75</b>	<b>120,97</b>
Debt payable within one year	358.276	323.037	320.350	99,17	90,16	89,41
Long-term Debt	584.556	564.484	1.077.684	190,91	96,57	184,36
<b>Total Debt</b>	<b>942.832</b>	<b>887.521</b>	<b>1.398.034</b>	157,52	94,13	148,28
<b>Equity</b>	<b>2.962.992</b>	<b>3.047.567</b>	<b>3.326.967</b>	109,17	102,85	112,28
Share capital	117.738	117.738	117.738	100,00	100,00	100,00
Hyperinflation adjusted share capital	441.418	441.418	441.418	100,00	100,00	100,00
Capital premiums	247.479	247.479	247.479	100,00	100,00	100,00
Other reserves	1.265.797	1.265.797	1.265.797	100,00	100,00	100,00
Reported result	890.559	975.134	1.254.535	128,65	109,50	140,87
<b>Total equity and debt</b>	<b>3.905.824</b>	<b>3.935.088</b>	<b>4.725.001</b>	<b>120,07</b>	<b>100,75</b>	<b>120,97</b>

*Table 33- the company's financial standing during 2012-2014*

### ***Intangible Assets***

From 2010, in accordance with the EU approval process, the Company started to apply IFRIC 12 ***Service Concession Arrangements***, 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.

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 derecognised 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 recycled it as intangible asset. The company has tested the intangible assets recognized at the time without identifying impairment.

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

Intangible assets are depreciated to zero value during the remaining period of the concession agreement.

Intangible assets have increased by RON 924.000 compared to 31.12.2013, mainly due to the developments of the national transmission system.

### ***Tangible Assets***

Tangible assets include auxiliary buildings of operating assets, office buildings, land, assets used for the transit activity, as well as objectives related to the national transmission system taken over free of charge. The value of tangible assets has decreased by RON 40.130 as compared to 2013, mainly due to the fact that the tangible assets inflow of RON 15.963 were lower than the depreciation cost for tangible assets amounting to RON 55.643.

### ***Financial fixed assets***

At the end of 2014 the value of the financial fixed assets in the company's balance sheet was zero, a value determined by the 100% provisioning of all shareholding interest.

The highest share of the financial fixed assets is represented by Transgaz' shareholding in Nabucco Gas Pipeline International GmbH Viena (NIC) share capital, a company currently in liquidation following the shareholders decision to close out the company.

Although there is a chance the company may have an inflow of additional amounts from NIC liquidation, due to the high uncertainty of such inflow the company's investment of RON 138,544,435 in NIC has been fully provisioned as at December 31st, 2014.

### ***Inventories***

As at December 31<sup>st</sup>, 2014 the inventories have shown an increase of RON 2.590 as compared to December 31<sup>st</sup>, 2013 due to the purchase of spare parts for the company's repair works and investment program.

### ***Trade receivables and other receivables***

As at December 31<sup>st</sup>, 2014 the balance figure of the trade receivables and other receivables has increased by RON 541.876 as compared to 2013, mainly due to the following factors:

- Registration of trade receivable of RON 539.216 due to the enforcing of Law 127/2014 on October 5th, 2014 according to which if the Service Concession Agreement is terminated, regardless of the termination reason, or the Agreement



expires, the investment of the transmission system operator is transferred to the transmission system owner or to other grantor against a consideration equal to the regulated un-depreciated value set by the National Energy Regulatory Authority. As at the date of the balance-sheet the company has recognised a receivable for the remaining regulated value and an accrued income to the present value. The accrued income is recognised in the profit or loss account for the remaining duration of the Service Concession Agreement;

- An increase of the customer receivable balance by RON 3.085 mainly following the income increase in 2014 compared to 2013;
- Increase of advance payments to suppliers by RON 984.000;
- A balance increase of other receivables by RON 43.657 mainly due to warranties lodged by SNTGN Transgaz for the securing of grants for SCADA Project;
- An increase of provision allowances for impairment of trade receivables and other receivables by RON 45.067.

### ***Cash at bank and in hand***

As at December 31<sup>st</sup>, 2014 the company's cash increased by RON 290.606 as compared to the end of 2013, due to the fact that cash generated by the operating activity worth RON 649.848 has exceeded cash used for investment activities (RON 142.050) and financing activities (RON 217.191).

### ***Debts due in one year***

In the structure of debts due in one year, the following changes have been noticed to the previous year:

- **A balance decrease in trade payables and other payables by RON 23.627** mainly due to the decrease of debts for royalties by RON 2.044, to the decrease of VAT payable by RON 11.815, to the decrease of debts with other tax by RON 2.435, to the decrease of employees' payments by RON 2.195, to the decrease of other debts by RON 784,000, the decrease of trade payables by RON 12.930 and an increase of assets suppliers by RON 8.900, the decrease of dividends payable by RON 323.000;
- **A decrease of the provisions for risk and charges by RON 4,646** due to a decrease of the provision for litigations by RON 7.107, an increase of the provision for the mandate contract by RON 1.996 and of the provision for employees' profit sharing by RON 465.000;
- **An increase of corporate tax payables by RON 27.207** due to the increase of company profit as compared to the previous year;
- **An increase of employee benefits allowance by RON 19,287** mainly due to a recalculation of the compensatory amounts for 2012 and 2013, by including the bonuses and benefits in the basis of calculation for some compensatory amounts.

### **Long-term debts**

The evolution of long-term debts is due to the following aspects:

- Recycling into short-time debt of the long-term debt of RON 24.000 from the loan granted by BRD Group Societe Generale for partial financing of the company's investment program;
- The increase of accrued income by RON 523.598, mainly caused by an accounting accrual due to the legislation changes according to which the Company is entitled to recover the remaining un-depreciated value of the goods afferent to the company's investments as titleholder of the National Gas Transmission System;
- The decrease of deferred tax liabilities by RON 7.306 is mainly due to the increase of the employee benefit allowance as compared to 2013, namely due to the decrease of the variation between the basis of accounting and the tax base for Transgaz' tangible and intangible assets.

As at December 31<sup>st</sup> June 2014, the situation of medium and long term loans secured by Transgaz is as follows:

<b>Financing bank</b>	<b>Loan currency</b>	<b>Loan value (thousand RON)</b>	<b>Balance on 31.12.2014 (thousand RON)</b>
BRD GSG	RON	120.000,00	24.000,00

*Table 34- Medium and long term loans as at 31.12.2014*

### **Equity**

In 2014 the subscribed and paid up capital remained unchanged.

Increase in retained earnings by RON 279,400 is due to a profit for 2014 higher than the value of the dividends distributed in 2014, namely the dividends for 2013.

### **3.4.2 Comprehensive income**

Profit and loss account on 31.12.2014:

<b>Specification</b>	<b>Results (thousand RON)</b>			<b>Variation (%)</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	

1	2	3	4	5=4/3	6=3/2	7=4/2
<b>TOTAL income, of which:</b>	<b>1.420.159</b>	<b>1.557.361</b>	<b>1.688.694</b>	<b>108,43</b>	<b>109,66</b>	<b>118,91</b>
Operating income	1.365.369	1.516.640	1.655.319	109,14	111,08	121,24
Financial incomes	54.790	40.721	33.375	81,96	74,32	60,92
<b>TOTAL expenditure, of which:</b>	<b>1.025.612</b>	<b>1.130.604</b>	<b>1.078.107</b>	<b>95,36</b>	<b>110,24</b>	<b>105,12</b>
Operating expenses	998.817	981.647	1.063.751	108,36	98,28	106,50
Financial expenses	26.795	148.957	14.356	9,64	555,91	53,58
<b>GROSS PROFIT, of which:</b>	<b>394.546</b>	<b>426.758</b>	<b>610.587</b>	<b>143,08</b>	<b>108,16</b>	<b>154,76</b>
Operating profit	366.552	534.994	591.568	110,57	145,95	161,39
Financial result	27.995	-108.236	19.019	-17,57	-386,63	67,94
<b>PROFIT TAX</b>	<b>113.404</b>	<b>99.954</b>	<b>115.377</b>	<b>115,43</b>	<b>88,14</b>	<b>101,74</b>
Income from the deferred income tax	49.793	4.604	7.306	158,69	9,25	14,67
<b>NET PROFIT</b>	<b>330.936</b>	<b>331.408</b>	<b>502.516</b>	<b>151,63</b>	<b>100,14</b>	<b>151,85</b>

Table 35- Profit and loss account on 31.12.2014

## Operating income

Income of the operating activity achieved in 2014 is as follows:

Specifications	Results		Variation (%)
	2014	2013	
1	2	3	4=2/3*100
<b>Revenues from the transmission activity</b>			
- thousand RON	1.340.853	1.210.480	110.77
- MWh	126.703.188	119.741.363	105.81
- RON/MWh	10.58	10.11	104.68
- TCM	11.883.713	11.258.941	105.55
- RON/TCM	112.83	107.51	104.95
<b>Revenues from the international transmission activity</b>			
- thousand RON	273.760	268.537	101.95
<b>Other operating income</b>			
- thousand RON	40.706	37.623	108,19
<b>TOTAL OPERATING INCOME</b>	<b>1.655.319</b>	<b>1.516.640</b>	<b>109.14</b>

Table 36- Income of the operating activity achieved in 2014 vs 2013

## Operating expenses

Expenses of the operating activity achieved in 2014 are as follows:

SPECIFICATION	Results			Variation	Variation	Variation
	2012	2013	2014	(%)	(%)	(%)
1	2	3	4	5=3/2*100	6=4/3*100	7=4/2*100
Depreciation	164 539,65	180.880,11	185.292,64	109,93	102,44	112,61
Employee expenses and other employee benefits	364.884,84	344.869,39	351.858,47	94,51	102,03	96,43
Technological consumption, materials and consumables used, out of which	145 183,28	121.422,08	113.169,34	83,63	93,20	77,95
<i>Technological consumption and losses in the transmission system</i>	<i>118 925,38</i>	<i>95.500,06</i>	<i>92.124,45</i>	<i>80,30</i>	<i>96,47</i>	<i>77,46</i>
- technological consumption in MWh	2 541 664,92	1.662.340,33	1.046.480,77	65,40	62,95	41,17
- technological consumption in thousands cm.	239 222,18	160.139,98	96.939,59	66,94	60,53	40,52
Ancillary materials	22 433,32	22.135,68	17.091,81	98,67	77,21	76,19
Other expenses for materials	3 835,29	3.786,33	3.953,09	98,72	104,40	103,07
Royalties expenses	132 798,72	147.901,73	161.461,31	111,37	109,17	121,58
Maintenance and transmission, out of which	111 307,79	71.436,13	62.306,35	64,18	87,22	55,98
<i>Third parties works and services</i>	<i>100 000,02</i>	<i>61.175,95</i>	<i>51.752,32</i>	<i>61,18</i>	<i>84,60</i>	<i>51,75</i>
Taxes and other state obligations, out of which:	15 531,42	54.333,04	77.874,26	349,83	143,33	501,40
<i>Licensing fee for gas transmission and international transit</i>	<i>8 794,04</i>	<i>7.433,89</i>	<i>14.156,14</i>	<i>84,53</i>	<i>190,43</i>	<i>160,97</i>
Monopole tax		40.120,71	54.638,50	x	136,19	x
Special constructions tax		0,00	1.922,04	x	x	x
Expenses for provisions for risks and charges	5 100,60	3.223,35	-4.645,54	63,20	x	x
Other operating expenses	59 471,14	57.580,95	116.433,83	96,82	202,21	195,78
<b>TOTAL OPERATING EXPENSES</b>	<b>998.817,44</b>	<b>981.646,79</b>	<b>1.063.750,65</b>	<b>98,28</b>	<b>108,36</b>	<b>106,50</b>

Table 37- Operating expenses between 2012-2014

### 3.4.3 Cash flow statement

The cash flow statement as at December 31<sup>st</sup> 2014 is presented below:

Indicator	Financial year ending on		
	December 31 (thousand RON)		
	2012	2013	2014
Profit before tax	394.546	426.758	610.587
<i>Adjustments for:</i>		0	0
Depreciation	164.540	180.880	185.293
Loss on disposal of fixed assets	122	-20	76
Provisions for risks and charges	5.101	2.419	-4.646
Provisions for impairment of intangible assets	0	806	5.236
Income from connection fees	14.651	-16.958	-17.133
Provisions for warranties	0	0	-4
Provision for employee benefits	29.137	-1.319	-1.618
Provisions for impairment of receivables	9.355	163	45.071
Provisions for impairment of financial assets	0	132.591	5.953
Loss/(gain) on impairment of inventories	556	891	567
Loss on receivables	41	83	0
Interest expense	3.929	2.865	961
Effect of discounting the provision for benefits to employees	2.609	7.416	4.774
Income from receivables for the Service Concession Agreement	21	0	-6.517
The effect of exchange rate variation on other items than operating		-119	-111
Interest income	15.364	-9.563	-15.030
Other revenues	<u>1.074</u>	-23.167	<u>-1.967</u>
<b>Operating profit before changes in working capital</b>	<b>577.756</b>	<b>703.726</b>	<b>811.491</b>
(Increase)/decrease in trade and other receivables	10.662	-95.669	-161.441
(Increase)/decrease in inventories	7.954	882	-3.157
(Increase)/decrease in commercial debts and other debts	<u>17.075</u>	26.451	81.828
<b>Cash generated from operations</b>	<b><u>579.296</u></b>	<b><u>635.391</u></b>	<b><u>728.722</u></b>
Interest paid	3.962	-2.865	-961
Interest received	15.601	9.703	10.257
Profit tax paid	<u>82.872</u>	<u>-146.050</u>	<u>-88.170</u>
<b>Net cash inflow from the operating activity</b>	<b>508.063</b>	<b>496.179</b>	<b>649.848</b>
<b>Cash flow from investment activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
Payment for the acquisition of tangible and intangible assets	168.504	-174.046	-142.050

Cash from connection fees	5.114	55.009	14.116
Proceeds from disposal of tangible assets	112	135	0
Purchase of financial investments, net	<u>39.973</u>	-11.268	0
<b>Net cash used in investment activities</b>	<b>213.703</b>	<b>-130.170</b>	<b>-127.934</b>
<b>Cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
Dividends paid	350.122	-253.386	-207.307
Inflow from long-term loans	0	0	0
Repayments of long term loans	<u>42.413</u>	-24.000	-24.000
<b>Net cash used in financing activities</b>	<b>392.535</b>	<b>-277.386</b>	<b>-231.307</b>
<b>Net change of cash and cash equivalents</b>	<b>87.723</b>	<b>88.624</b>	<b>290.606</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b><u>266.361</u></b>	<b><u>178.638</u></b>	<b><u>267.262</u></b>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>178.638</u></b>	<b><u>267.262</u></b>	<b><u>557.868</u></b>

*Table 38- Cash flow statement between 2012-2014*

From cash flow analysis on December 31<sup>st</sup> 2014 one can notice an increase in available funds by RON 290.606 as compared to the previous year.

Changes occurred in the cash flow structure for 2014:

- cash flow generated from the operating activity is RON 649.848, namely RON 153.669 higher than the one for 2013;
- cash flow used in the investment activity is RON -142.050, namely RON 43.129 lower than the one for 2013;
- cash flow used in the financing activity is RON -217.191, namely RON 5.186 lower than the one for 2013.

### 3.4.4 Evaluation of activity on 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.

## Market risk

### 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 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 transit) 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:

	2014	2013
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	2.103.397	3.654.009
USD depreciation by 10%	(2.103.397)	(3.654.009)
EUR appreciation by 10%	6.838.279	2.635.180
EUR depreciation by 10%	(6.838.279)	(2.635.180)

### *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 2014 would have been lower/higher by RON 3.869.229 (2013: RON 4.011.003).

### *Interest rate risk on cash flow and fair value*

The Company is exposed to interest rate risk by its variable rate long and short-term loans. 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 2014, 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 2.241.617 (2013: profit RON

829.187) lower/higher, as a net result of the interest rate variation for bank deposits, and the interest rate variation for floating rate obligations.

### ***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 65% of the trade receivable balances on December 31<sup>st</sup> 2014 (2013: 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.

	<b>2014</b>	<b>2013</b>
No rating	1.574.693	59.511
BB-	262.217.263	86.883.471
BBB-	1.785.923	1.922.703
BBB	7.130.249	-
BBB+	284.236.404	122.973.017
BA1	730.107	-
A	0	53.982.844
A+	71.652	66.924
Caa2	-	1.262.981
	<b>557.746.291</b>	<b>267.151.451</b>

### ***Liquidity risk***

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

The company projects cash flows. The financial position of the Company monitors continuous forecasts of Company's liquidity requirement to make sure there is enough cash to meet the operational requirements, maintaining at the same time a sufficient level of unused borrowing facilities at any time, so that the company does not break the limits or loan agreements (where applicable) for any of its credit 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 the obligations on December 31<sup>st</sup> 2014 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 31<sup>st</sup> 2014 is as follows:

	<b>Total amount</b>	<b>less than 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>
Loans	24.333.300	24.333.300	-	-
Trade payables and other payables	146.207.860	146.207.860	-	-
	<b>170.541.160</b>	<b>170.541.160</b>		-

Maturity analysis of financial liabilities on December 31<sup>st</sup> 2013 is the following:

	<b>Total amount</b>	<b>less than 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>
Loans	49.333.053	24.963.393	24.369.660	-
Trade payables and other payables	151.345.228	151.345.228	-	-
	<b>200.678.281</b>	<b>176.308.621</b>	<b>24.369.660</b>	-

Trade payables and other liabilities include trade payables, suppliers of fixed assets, dividends payable, payables to the Ministry of Economy and Tourism and other payables.

### **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, Transgaz monitors the capital based on the debt leverage. 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 2014 and 2013, the Company's strategy was to keep the debt leverage degree as low as possible to keep a significant capacity to borrow funds for future investments, where and when the case. Rate of debt was zero as at December 31<sup>st</sup> 2014 and 2013.

	<b>2014</b>	<b>2013</b>
Total loans	24.000.000	48.000.000
Loss: cash and cash equivalent	(557.868.004)	<u>(267.261.555)</u>
Net cash position	(533.868.004)	<u>(219.261.555)</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 to approximate their fair value.

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.

## **4. COMPANY MANAGEMENT**

### **4.1 The Board of Administration**

#### **The company's administrators at the beginning of 2014:**

- **STERIAN ION** – *non-executive director - Chairman of the Board of Directors;*
- **VĂDUVA PETRU ION** – *executive director - General Manager;*
- **ILIESCU BOGDAN-GEORGE** – *non-executive director;*
- **CERNOV RADU ȘTEFAN** – *non-executive director;*
- **NEACSU VLAD-NICOLAE** – *non-executive director*

#### **Changes in the structure of the Board of Directors in H1/2014:**

In the meeting of the Board of Directors on 24.01.2014, Mr. NEACȘU VLAD NICOLAE withdrew and, instead, Mr. REMUS VULPESCU was elected as interim director.

In the meeting of the Board of Directors on 02.06.2014, Mr. REMUS VULPESCU was revoked and, instead, Mr. RIZOIU ANDREI was elected as interim director.

#### Company administrators as at 31.12.2014:

- **STERIAN ION** – *non-executive director - Chairman of the Board of Directors;*
- **VĂDUVA PETRU ION** – *executive director - General Manager;*
- **ILIESCU BOGDAN-GEORGE** – *non-executive director;*
- **CERNOV RADU ȘTEFAN** – *non-executive director;*
- **RIZOIU ANDREI** – *interim non-executive director*

#### The administrators' resumes

The administrators' resumes may be found on Transgaz webpage at [www.transgaz.ro](http://www.transgaz.ro)

#### Agreements/understandings or special family ties

According to information provided by administrators, there is no agreement or family tie between the respective person and another person due to which that person was appointed administrator.

#### Administrator's participation to Transgaz capital

The Company's directors do not own shares in the share capital of the company

### 4.2 Executive management

Members of the executive management have individual labour agreements concluded for indefinite periods. The management and execution staff in Transgaz is appointed, hired or laid off by the General Manager.

According to the information available, there is no agreement, covenant or family tie between the mentioned persons and another person due to which they have been appointed as members of the executive management. The table below shows the members of the executive management holding shares in Transgaz:

Name and first name	Position	Number of shares as at 31.12.2014	Interest share (%)
Hategan Gheorghe	Deputy Director General	24	0,000203

Lupean Marius	Director	20	0,000169
Tătaru Ion	Director	25	0,000212
Comaniță Adela	Director	7	0,000059
Șai Alexandru	Director	10	0,000084
Pătârniche Mihai	Director	97	0,000823
Ilie Lața	Director	46	0,000390
Ioan Rusu	Director	2.508	0,021301
Nita Viorel	Director	5	0,000042

*Table 38- Members of the executive management holding shares in Transgaz as at 31.12.2014*

The following persons represent the Company's executive management:

Crt. No.	Name and first name	Position	Division/Direction
1	Petru Ion Văduva	Director General	
2	Gheorghe Hațegan	Deputy Director General	
3	Tarsac Grigore	Deputy Director General	
4	Marius Lupean	Director	Economic Division
5	Ghidiu Elisabeta	Director	Strategy and Corporate Management Division
6	Stroia Marius	Director	Operation Division
7	Tătaru Ion	Director	Development Division
8	Cosma Florin	Director	Exploitation and Maintenance Division
9	Leahu Mihai	Director	Engineering and Research Division
10	Achim Viorel Ciprian	Director	HSQE Division
11	Alic Ciprian Octavian	Director	European Funds and International Relations Division
12	Gruia Daniel	Director	IT, Communication and SCADA Division
13	Idu Olga	Director	Legal Direction
14	Mateș Angela	Director	HR Direction
15	Niculescu Oana	Director	Budgeting Strategy Direction
16	Mareș Gabriela	Director	Cooperation and European Regulation Direction
17	Fodor Mihai Iuliu	Director	Budgeting Finances Direction
18	Comăniță Adela	Director	Accounting Direction
19	Deac Sorin Gabriel	Director	Works Preparation and Execution Direction
20	Rău Ioan	Director	Commercial Direction
21	Șai Alexandru	Director	Gas Metering, Gas Quality Direction
22	Pătârniche Mihai	Director	The National Gas Dispatching Center
23	Bunea Florin	Deputy Director	Gas Market Operator Direction Bucharest
24	Barbu Viorel	Director	NTS Reconditioning Direction
25	Luca Bogdan Avram	Director	Public Purchase and Procurement Direction
26	Drusan Nicolae	Director	Protection and Security Direction
27	Muntean Aurel	Deputy Director	Gas Metering, Gas Quality Direction
28	Lascu Sergiu	Deputy Director	IT and Communication Division
29	Pânzar Adela	Deputy Director	Public Purchase and Procurement Direction
30	Ilie Lața	Director	Medias Subsidiary
31	Rusu Ioan	Director	Medias Territorial Offices
32	Schmidt Hăineală Eduard	Director	Bacău Territorial Offices
33	Țandru Marcel	Director	Cluj Territorial Offices
34	Gherghe Cristian	Director	Constanța Territorial Offices
35	Niță Viorel	Director	Craiova Territorial Offices

36	Gurgu Victor	Director	Brăila Territorial Offices
37	Cristoloveanu Gheorghe	Director	Braşov Territorial Offices
38	Bâldea Dan	Director	Bucharest Territorial Offices
39	Bachios Gheorghe	Director	Arad Territorial Offices

*Table 39-SNTGN Transgaz SA Mediaş executive management*

### **4.3. Potential litigation or administrative procedures**

Reference: Litigation or administrative procedures in which the administrative and executive management was involved in the past 5 years, as well as those concerning their capacity to fulfil their duties within Transgaz.

Not the case.

## **5. OTHER ASPECTS**

### ***The list of all entities Transgaz holds shares in***

- **NABUCCO GAS PIPELINE INTERNATIONAL GmbH**, based in Vienna, company in which Transgaz owns equity interests of 17.93% of the share capital and whose object of activity is the development of Nabucco project. The lack of perspective of Nabucco project in the context of failure to be selected by Shah Deniz Consortium and the uncertainty of commissioning new gas fields in the predictable future in the Caspian Sea and Middle East determined Nabucco shareholders to make the decision of liquidating the project company and the National Nabucco Companies (NNCs), voluntary liquidation controlled by NIC shareholders through a liquidator;
- **SC MEBIS SA Bistriţa**, based in Bistriţa, (J06/150/1991) in which Transgaz owns a 17.47% stake, whose object of activity is the development of metal structures and complex welded assemblies, assemblies and hydraulic products. The company is under insolvency proceedings, file no.101/112/2009, with the Law Court in Bistriţa-Năsăud, Section: Trade, Administrative Contentious and Tax Section;
- **SC “Resial” SA** based in Alba Iulia (J01/77/1991) in which Transgaz owns a 68.16% stake, whose main activity is the manufacture and marketing of alumina silicate refractory products. The company is under bankruptcy proceedings, file no. 41/107/2005 with the Law Court of Alba, Section: Trade.

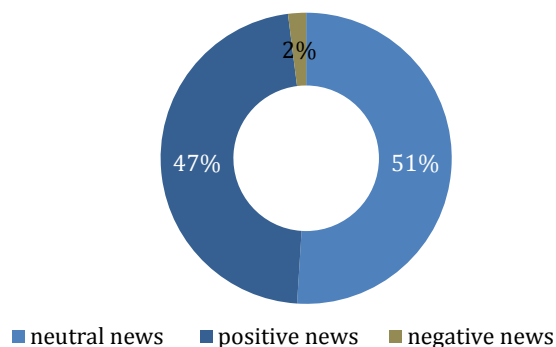
By application of GEO no. 86/17.12.2014 *on the determination of some measures for the restructuring of the central public administration and on the amendment and supplementation of certain normative acts, published in the Official gazette, Part I, no. 920 of December 17<sup>th</sup>, 2014* repealing GEO no.6/2014 *on the exercising of the rights and obligations of the state as shareholder of the National Power Transmission Company Transelectrica – S.A. and of the National Gas Transmission System Transgaz – S.A. Mediaş and on the amendment of certain normative acts*, Transgaz’ Service Concession

Agreement is transferred under the jurisdiction of the National Agency for Mineral Resources.

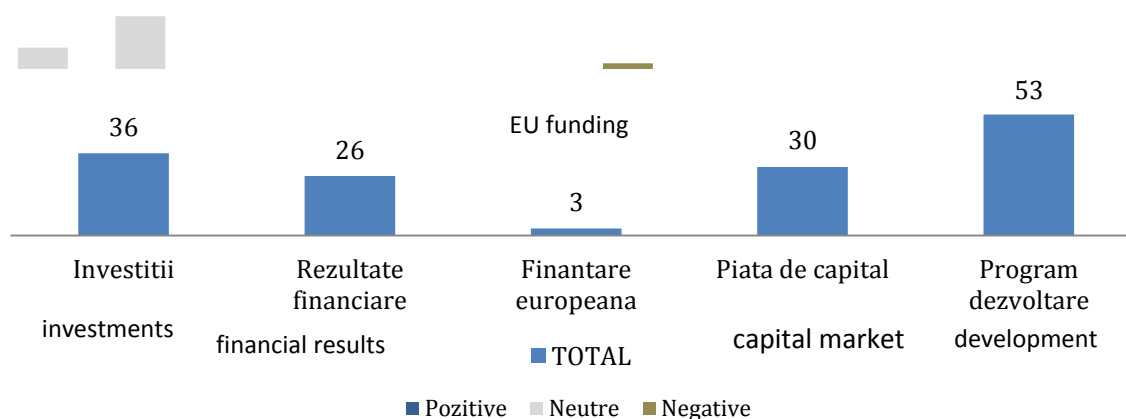
### **Infographic monitoring of Transgaz news in 2014**

From the monitoring of the news on Transgaz activity on the media channels in 2014 we summed up a no. of 385, out of which:

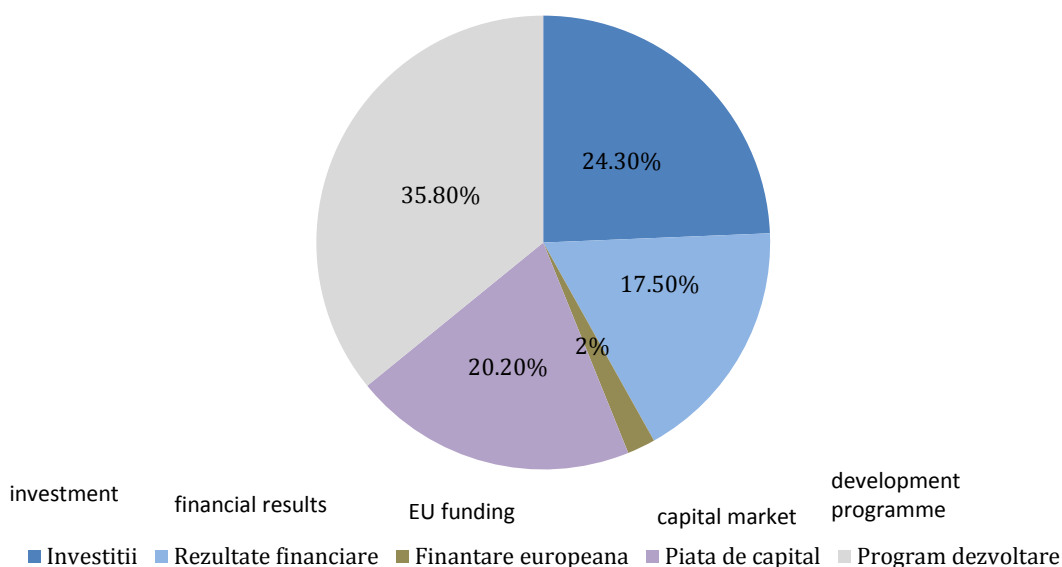
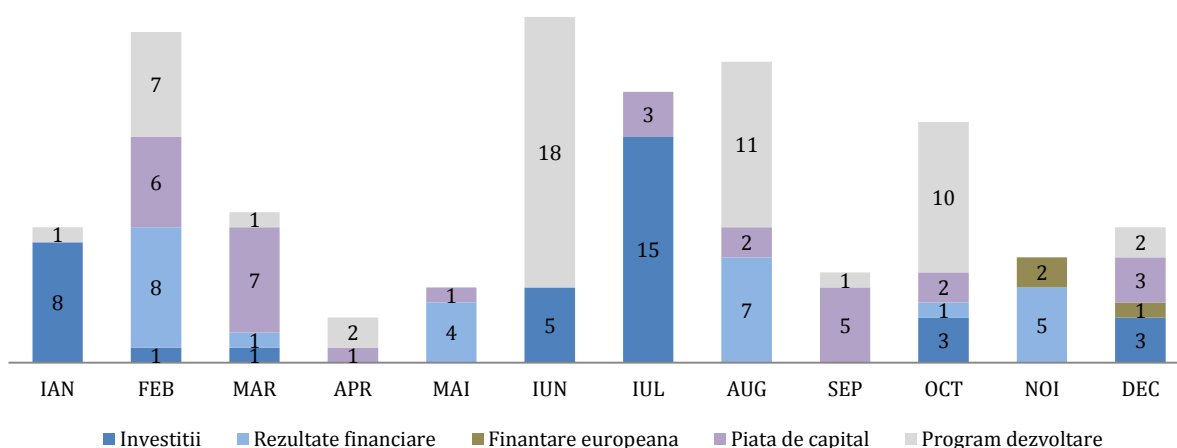
Neutral news	197	51%
Positive news	79	20%
Negative news	9	2%
<b>Total news</b>	<b>385</b>	<b>100%</b>



Monthly distribution of news in 2014 and classification by type: positive, neutral, negative.



Monthly distribution of news in 2014 and classification by subject: investment, financial results, European grants, capital market, development plan:



## Rating

From 2006 Transgaz has been under the surveillance of the rating agency Standard&Poor's, for the assignment and periodic review of credit rating. In 2014 Transgaz and Standard&Poor's have concluded the agreement no. 222 / 27.07.2014 on credit rating review and monitoring services.

Trying to improve the company's rating, the new management had in 2014 numerous talks and meetings with S&P representatives to present them with the new development strategy of the company, the investment programs undertaken, the directions of action of the management in the line of reducing costs and optimizing the

operational efficiency, so that the rating agency S&P reconsiders Transgaz evolution and positively reviews the current rating.

According to the monitoring report published by Standard&Poor's on **August 8<sup>th</sup>, 2014**, the BB negative rating **has been improved to BB stable rating**.

Standard&Poor's has confirmed Transgaz Medias rating for long term loans at BB and **has improved the perspective from negative to stable** since the agency considered that the framework regulations had been stabilised and shall not weaken the cash flow.

The agency shows there have been changes to regulations that support Transgaz rating. Among these changes there is the recognition of certain income by performance improvement at a time when previous regulations were in force, and last year the increase of the capacity component in the tariff. The increase of the capacity component in the tariff has led to a significant income increase in 2013.

The National Energy Regulatory Authority (ANRE) has approved in July the regulated income, the total income and the transmission tariff for gas transmission through the National gas Transmission system for August 1<sup>st</sup> 2014 – September 30<sup>th</sup> 2015.

S&P believes that Transgaz' risk profile is low considering the company's low competition profile due to the regulatory framework. The agency considers that the Romanian gas distribution regulations are still unpredictable and, save for the recent developments, represent a lesser support for the companies' ratings than in other jurisdictions. S&P's opinion also includes the evaluation of a moderate country risk which reflects the fact that Transgaz's operations are solely carried out in Romania.

The stable perspective reflects the opinion that Transgaz will be able to get solid operational and financial results in the following two or three years, and the company will remain safe from negative political intervention related to the changes in the national macro-economical or fiscal environment.

Transgaz' rating at the end of 2014 - **BB stable**.

## 6. ADMINISTRATORS' DISCHARGE

Based on Art. 55 and Art. 56 under GEO 109/2011, SNTGN Transgaz SA administrators will submit in the General Shareholders' Assembly the Administrators' Report for 2014 which is part of the financial statements for 2014.

Whereas the following legal provisions:

- Art.111 para (2) letter.(d) under Company Law no. 31/1990 as republished with further amendments and supplements;
- Art.15 para 3 letter (h) in the Articles of Association of SNTGN Transgaz SA as updated on October 3<sup>rd</sup> 2014;



- Art.4.1 letter (h) in the Administrators' Mandate Contract concluded on September 30<sup>th</sup>, 2013,  
the company's administrators shall submit for approval of the General Shareholders' Assembly the discharge for the activity performed in 2014 as presented herein.

**Note: Annexes 1 and 2 are integral part hereof.**

**Ion Sterian**  
**Chairman of the Board of Administration**