

SONELGAZ

2012

**ACTIVITY REPORT AND
CONSOLIDATED MANAGEMENT
ACCOUNTS**

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I am honored through my modest contribution to deal with the key events the Group has known during the year 2012 which have enabled us to acquire greater experience and engage a new corporate dynamics combined with permanent social consultation.

2012 has been devoted to the reshaping of the subsidiaries' organization for a better efficiency.

Besides, it has been decided to set up a new subsidiary of generating diesel and renewables called SKTM, the splitting of the subsidiary Prevention and Security (SPAS) into four companies and the merger of ARMEL with MEI which is the industrial equipment maintenance.

The holding company has merged the managements of technical and management audit into a new executive management for internal audit.

It is worth noting the signing in 2012 of a cooperation agreement with the initiative of D II (Desertec) and the establishment of MED TSO foundation aiming for the consultation and development of synergies between Mediterranean power systems managers.

To meet the high demand of energy, the Group's subsidiaries work for take up a strategic challenge. In fact, facing the growing demand, Sonelgaz companies, namely power and gas engineering company (CEEG) are required to achieve within five years the equivalent of what has been achieved in fifty years in terms of power generation, transmission and distribution works.

This is another stake in the history of the Group's achievements. We are committed to take up this challenge to overcome the various risks such as the lack of human resources, important workload, very short delays, passing and achievement constraints as well as implementing a financing plan that has never been performed by Sonelgaz companies before.

The projects that Sonelgaz workers have to carry out today and in the coming years are decisive for the future of our country.

Their achievement relies on the commitment and contribution of each of us , managers, workers, customers and citizens to take up these challenges in order to ensure the development of our country and the welfare of everybody.

It is worth mentioning that these are the structuring and public benefit projects.

Thus, it is essential to meet all conditions to enable our workers to accomplish their mission in serenity.

Transparency is our leitmotiv in Sonelgaz as long as we enjoy with a long legal and respectful tradition of regulations.

We have always favoured a sane and appropriate social and work climate of creativity and initiatives. I take also this opportunity to ensure to creative force of wealth which is our staff and remind that Sonelgaz Group will fulfill its own role to fully focus on its mission of general interest.

I don't conclude my modest contribution to pay tribute to the whole staff-managers, officers' agents- of Sonelgaz Group companies for their mobilization and commitment to successfully complete hugely important and hard projects in short delays.

THE BOARD OF DIRECTORS

M. Nouredine BOUTARFA

Chairman of the Board of Directors

M. Embarek Abdelkader EL MEKKI Representative of the Minister of Energy	M. Allaoua SAIDANI Representative of the Minister of Energy	M. Mohamed AMRI Representative of the Minister of Forecasting	M. Farid NEZZAR Representative of the Minister of Environment
M. Malek LAIDOUNI Representative of the Minister of Industry	M. Abdelkader CHORFA Representative of the Minister of Local authorities	M. Fayçal TADINIT Representative of the Minister of Finance	M. NabiI KAFI President and General Manager of SPE subsidiary
M. Messaoud BENKIRAT President and General Manager of GRTE Subsidiary	M. Boualem DIGUER President and General Manager of GRTG subsidiary	M. Yacine Reda REDOUANE President and General Manager of SDC subsidiary	M. Kamel HASSENI Trade union representative
M. Achour TELLI Trade union representative			

SONELGAZ

And THE FIFTIETH ANNIVERSARY

OF INDEPENDANCE

Fiftieth anniversary of independence

Sonelgaz

Supporting country's development since Independence

Just after recovery of its independence at the cost of a toll, Algeria strived to get back all the institutions inherited from the colonial era. Thus EGA had been taken on by the independent Algerian state.

Within a few years, the supervisory staff and the Algerian personnel could take over thanks to the unfailing commitments and iron will.

When EGA became Sonelgaz in 1969, the latter endeavoured to support the country's economic and social development.

Henceforth, the National Company for electricity and gas was already an important company counting 6,000 agents.

The transformation of the company aimed at supplying it with the capacity to assist and support the economic development. This notably implied the industrial development and access to larger number of citizens to electrical energy.

As the company grew, it was necessary to adapt the company's organization to new challenges. Thus, In 1983, Sonelgaz set up five specialized subsidiaries that allowed to expand its scope in terms of electrification, infrastructures and electrical installations, implementation of gas networks, civil engineering, industrial assembly, meter manufacturing and measuring and control devices.

Henceforth, Sonelgaz was supplied with electricity and gas infrastructure that could meet the needs of economic and social development of a country in constant mutation.

Sonelgaz pursued its adaptation to the new national economic environment when in 1991 it turned into a public industrial and commercial company. The company then combined the country's development with the marketability rules, to the extent that it transformed into joint stock (shareholding) company in 2002.

This transformation aimed to expand the activities of Sonelgaz to other areas within the energy sector. Once this new status was achieved, the company turned to the international level. Sonelgaz pursued its development and in 2004 it became a holding company.

Sonelgaz reform resulted in a rapid, deep, controlled and ambitious restructuring, and contributed to the creation of thousands of jobs.

In the mid- 2000s, this dynamic led to the emergence of a positive image, power and potential of the Group to establish itself as a major player in the electricity and gas sectors in the Maghreb and the Mediterranean regions.

Today, Sonelgaz has become an industrial group of 41 companies (including six direct stakeholdings) in the field of electricity generation , transmission and distribution of electricity and gas, in engineering, services as well as in the areas of energy infrastructure works. At present, the Group has a total workforce of over 70,000 employees.

Sonelgaz is strong thanks to its history and its various achievements since its creation; Sonelgaz is part of these important establishments whose name is inextricably linked to the history of modern Algeria. In 2019, it will be 50 years of existence, great achievements behind and huge projects ahead.

Let us , here , pay glowing tribute to the generations that succeeded one another to incessantly ensure the satisfaction of the growing needs of Algeria in full economic and social growth.

GOVERNANCE OF THE GROUP

Governance of Sonelgaz Group is organized around two main bodies that are the General Assembly and the Board of Directors. In addition, the Group has an Executive Committee, an Audit Committee, a Group Coordinating Committee and an Ethics Committee (Advisory Board).

The General Assembly:

Sonelgaz Group has a General Assembly (GA). It is the higher body which takes strategic decisions on the future of the Group.

The GA of the Group is composed of representatives of the sole owner of the issued capital.

The Board of Directors:

The Board of Directors (BD) is a collegial management body which controls Sonelgaz Group activities including the achievement of the company' social project, while complying with laws and regulations.

Committees:

The Group has four committees.

The Executive Committee:

It is the highest body of decision support and control. The members of the Executive Committee which is chaired by the CEO of Sonelgaz Group are senior executives occupying strategic positions at the holding company and managing directors (poles of activities).

The Audit Committee:

It is an independent body in charge of advising on the quality of Sonelgaz management. It is composed of four members appointed by the Board of Directors.

The Coordinating Committee Group:

Chaired by the CEO, this committee is primarily takes on the overall coordination of activities conducted by all subsidiaries of the Group.

Ethics Committee of the Group's companies:

The committee's main tasks are to promote ethical practices within the companies of Sonelgaz Group and ensure compliance and evolution of the provisions of the code of ethics.

SUBSIDIARIES

The activities of subsidiaries energy industries:

- Algerian company of electricity generation (SPE).
- Algerian company of network management Transmission of Electricity (GRTE).
- Algerian company of network management of gas transportation (GRTG).
- Electrical system Operator (OS).
- Sharikat Kahraba Skikda (SKS).
- Sharikat Kahraba Berrouaghia (SKB).
- Sharikat Kahraba Koudiet Eddraouch (SKD).
- Sharikat Kahraba Terga (SKT).
- Algerian Energy Company (AEC).
- New Energy Algeria (NEAL).
- Sharikat Kahraba Hadjret Ennousse (SKH).

- Distribution and related technologies activities subsidiaries
- Algiers electricity and gas Distribution Company (SDA).
- Central region electricity and gas Distribution Company (SDC).
- Eastern region electricity and gas Distribution Company (SDE).
- Western region electricity and gas Distribution Company (SDO).

Works and industrial production activities subsidiaries:

- Industrial assembly Company (ETTERKIB).
- Building infrastructure Company (INERGA).
- Pipes embodiment Company (KANAGHAZ).
- Electrification works Company (KAHRIF).
- Electrical installation work Company (KAHRAKIB).
 - Rouiba éclairage; manufacturing and trading lighting equipment company.
- Industrial equipment maintenance company (MEI).
- Electricity and gas industries real estate company (SOPIEG).
- Measuring and Control devices company (AMC).
- Algerian trading post of electric and gas equipment (CAMEG).

• Services subsidiaries:

- Company of transport and exceptional handling of industrial and electrical equipments (TRANSMEX).
- Maintenance and services vehicles company (MPV).
- Algerian Information Technology company (SAT INFO).
- Prevention and Security company (SPAS).
- Mas des planteurs Hôtel (HMP).
- Sharikat khadamet mouhaouilet kahrabaia (SKMK).
- Electricity and gas Training Institute (IFEG).
- Occupational Medicine of power and Gas industry Company (SMT).
- Community and cultural service fund of the power and gas industries workers (FOSC).
- El djazair information technology (ELIT).
- Center of electricity and gas research and development (CREDEG).
- Engineering company of Electricity and Gas (CEEG).

• Stake holding companies:

- Algerian engineering service company (ALGESCO).
- Energy and mines tendering Bulletin (BAOSEM).
- Algerian energy telecom company (AETC).
- Algerian operating & Maintenance company (AOM).

Activities of the Group's governing bodies:

The Board of Directors

During 2012, the Board of Directors held seven meetings where 62 resolutions were adopted and implemented. The main resolutions focused on the following points:

- Adoption of the emergency plan for strengthening the generation-transmission of electricity system over the period 2012-2016.
- Notification of the National Audit Office's assessment note n°. 02 dated 21/11/2011 regarding the monitoring by Sonelgaz the performance of the investments conditions in the field of power generation for the period 2012 – 2016.
- Merger of the repair shops of electrical equipment company, Eurl ARMEL Group.
- Appointment of several major executive officers.
- Draft resolution n° 522/PDG dated 15 April 2012 concerning the market regulations applicable to the companies of the Group.
- Dissolution of Telecom Algerian Energy joint venture Company (AETC Spa).
- Dissolution of New Energy Algeria joint venture company (NEAL Spa).
- Decision to increase the equities of SDA-SDO-CDS companies.
- Development plans 2012 – 2022 for the power generation companies (SPE), GRTE, GRTG, SDA, SDC, SDE and SDO.
 - Setup of the power generation subsidiary SKTM for the southern remote networks and renewable energies by the splitting of SPE.
- Corporate Restructuring of SPAS by creating through splitting of four regional security companies (Algiers, center, east and west).
- Merger of the company called ARMEL that is Repair Shops of electrical equipment with the joint venture company called MEI Spa that is Industrial Equipment Maintenance Company.
- Mobilisation of bank borrowings to financially cover the development programs of the Group's companies.
- Various resolutions on asset disposals of the different companies of the Group.

The General Assembly

During fiscal year 2012, the Ordinary General Assembly held only one meeting, on July 4, where 19 resolutions were adopted and implemented among which the approval of the 2011 management report drafted by the Board, the discharge granted to the Board of Directors, the allocation of 2011 financial statements, the approval of the summary of 2011 activity reports and consolidated annual accounts of the Group's companies, and many other resolutions proposed by the Board of Directors (such as the development plan, creation of subsidiaries, etc.).

Setup of the Internal Audit Management

Management of Internal Audit (DAI) was set up following the merger of the managements of technical audit and management approved by the Board of Directors resolution. Its mission consists in the assessment of risk management, internal control, governance and the analysis of the whole group's activities.

It is also in charge of ensuring the reliability and integrity of financial reporting, completeness of operational information and adequacy of internal control system.

Being brought under the CEO, the DAI is composed of five structures which are: the supervisors' pool , the auditors' pool, the planning and recommendations follow-up department, quality and methods department and the subdivision of General Affairs.

New market regulations applicable to the Group' companies

The rules of the execution transfer, settlement and control of markets have undergone changes after the promulgation of Presidential Decree n°. 12-23 of 18 January 2012, superseding and substituting the decision n° 219 dated April 4, 2010 by the decision No 522/PDG / dated April 15, 2012.

Now, the over the counter markets are subject to the prior approval of the Council of Ministers and Council of Government. Moreover, in the case of receiving of a unique bid or of technical pre-qualification, the contracting department may pursue the assessment process. Benefits are reserved for micro-enterprises in the limit of 20% of the order. All contracting services have the right to information on the bids made by tenderers, according to the new regulations.

The sectoral commission of external control was instituted in order to bring about the control and the competence thresholds of the Group's companies markets. The control of contracts financed from the final contribution of the State is based on the mechanisms established by the aforementioned presidential decree in addition to the internal control process.

Merger of ARMEL within the subsidiary MEI

The absorption of the Eurl ARMEL - company of electrical equipment repair – by the industrial equipment maintenance company (MEI) was conducted in September 2012.

This merger allows the subsidiary MEI to take on new products such as the repair of electrical motors, generators and manufacturing kits for medium voltage motors.

ARMEL was transferred by the Council of State holdings free of charge to Sonelgaz in the context of developing its new business strategy. ARMEL absorption by MEI allows for better capture the market of MV motors maintenance of which the largest users are Sonatrach, cement plants and power generation stations. Established in December 1998, its absorption by MEI safeguards 75 jobs.

A medium term investment plan is due to strengthen the machinery park, and the construction of a related workshop ARMEL for light repair and establishment of a technical partnership for development.

Renewable Energy and Environment

Algeria's energy needs are steadily increasing. Based on this assumption, the Sonelgaz Group is resolutely turned towards the use of renewable energy, alongside conventional energy resources in order to meet demand. Renewable energy solutions are more increasingly used worldwide. Sonelgaz banked on this inexhaustible source for both, increase the generation of electricity and create many jobs in this sector.

National development programme of New and Renewable energies

Renewables are among the main drivers of development to build a cleaner future. These are renewable energy sources which use less impacts nature. Sonelgaz is working hard in its strategy to always put this premise forward, endeavouring to limit the negative effects of power generation on the environment.

The National Programme for development of new and renewable energy (NRE) and energy efficiency for the period 2011-2030 aims to generate 40% of the national electricity from solar and Aeolian systems.

This program which is due to be conducted in three phases will see the implementation of pilot projects to test different available technologies (2011-2013), the early deployment of the program (2014 - 2015) and the large-scale deployment (2016-2020).

The five cornerstones of the program are:

- Training of human resources for the development of capacity to respond to new business requirements.
- Research and development in the field of renewable energies.
- Achievement of strategic studies.
- Mastery of engineering Procurement and Construction.
- Manufacture of Equipments

Achievement of Several projects in 2011

Several projects were completed in 2011 as part of the national program for development of new and renewable energies (NRE). The Group has launched, in partnership with the Algerian-French Consortium Cegelec, the achievement of a wind farm in Adrar.

The Electricity and Gas engineering Company (CEEG) and the German Group Centrotherm / Kinetics signed the contract for the manufacturing of photovoltaic modules of Rouiba éclairage.

In this wake, a trade show for the development of national outsourcing in the field of photovoltaic industry was organized. In addition, a call for expression of interest was issued for the construction of an industrial complex specialized in manufacturing silicon.

On another level, a committee of national integration of renewable energy and a foundation of Mediterranean power grids managers were established.

Achievement of Ghardaia solar power station

Photovoltaic solar power station of Ghardaia is part of the development program of renewable energy. The completion delays set for this work are 12 months.

On 21 December 2011, upon the mandate of SPE, the Electricity and Gas engineering Company (CEEG) conducted the opening and evaluation of financial bids for the achievement of a photovoltaic panel station project in Ghardaia.

The contract was awarded to the Group ABB Italy / ABB Algeria who offered the lowest price.

As a reminder, the transaction won by this Group regards the achievement of a solar power station with a 900 kWp increased to 1100 kWp capacity.

This power station will be located in Oued Nechou on an area of ten hectares. This project will test the behavior of this type of equipment and its adaptation to the climate of the south.

The choice of the location of this project follows several criteria, particularly related to the existence of a flat land and its location near a transformation substation that would allow for the evacuation of the energy generated.

Cooperation

Project to export 1,000 MW from renewable energies under study

The draft agreement signed between Sonelgaz and DII (Desertec industrial initiative) , on December 9, 2011, was first concretized through the launch of the survey of a reference project for exporting 1000 MW from renewable sources from Algeria to the European market .

This survey was launched on April 24, 2012, by organizing a workshop at the training center of IFEG Ben Aknoun where experts and representatives DII Sonelgaz, System Operator, MEM, CREG, CREDEG, CEEG, SPE and GRTE took part.

The 1000 MW capacity reference project for the export of renewable energy to the European market (10% for the Algerian market), covers the various technological sectors of the national development plan of renewables and energy efficiency , photovoltaic (PV), solar concentrator power (CSP) and Aeolian . The survey will be conducted jointly by Sonelgaz and DII, and will focus on the following:

- The study of the Algerian and European regulatory framework governing the export of renewable energy.
- The assessment of Algerian potential solar and Aeolian.
- The assessment of the country's technology and specific costs.
- Network analysis and assessment of transport costs – notably the possible reinforcements and routes for exports.
- Analysis of the Algerian and European markets.
- The analysis of the socioeconomic impact of the project.

The workshop in charge of the launch, which focused on the definition and the expected results of the reference project, identified the elements of the terms of the project reference survey whose completion is scheduled for the period from May to November 2012.

As a reminder, the draft agreement signed between Sonelgaz and DII aims at the achievement of joint studies in the field of renewable energy development, promotion of local manufacturing facilities, the construction of renewable energy plants, training, and developing lines of research in the field of renewables and energy efficiency in collaboration with Algerian laboratories and universities, in accordance with their respective interests.

Financing of manufacturing photovoltaic modules " Rouiba Eclairage» project

The total amount of investments under the project of manufacturing photovoltaic modules located at the industrial area of Rouiba is 42 300 million dinars.

The funding of this project was set up in implementation of measures adopted at the 116th session of the Council of State Shareholdings dated June 28, 2011 which are summed up as follows:

- A loan granted by National Bank of Algeria (BNA), for an amount of 22.3 billion dinars, formalized by the establishment of a loan agreement between BNA and Sonelgaz dated August 9, 2011 .
- A loan granted by the National Investment Fund (FNI) through the Algerian Development Bank (BAD), amounting to 20 billion dinars, formalized by the establishment of a loan agreement between Sonelgaz and INF /B AD dated December 21, 2011.

These loans will be lent by Sonelgaz to Rouiba éclairage through a retrocession agreement that defines the terms and conditions of repayment of the loans and the financial charges incurred.

6th edition of the Electro, Automation & Energy exhibition

Domestic and foreign companies, professionals and research centers participated in the sixth edition of the International Electro, Automation & Energy which took place from 5 to 8 May 2012 in Pin -Maritimes fair (Safex, Algiers).

Investment opportunities offered by the Algerian development plan for renewable energy have been placed at the heart of this event. The objective is to achieve the strengthening of cooperation relations between local partners and foreign industrial professionals.

The subsidiary CREDEG presented its project of solar products approval and Sidi Abdallah new town project.

The Subsidiary CEEG presented under way and future projects in the field of renewable energies.

Kahrakib Company presented its experience in the manufacture of LV equipment necessary for photovoltaic systems. This exhibition was also an opportunity for NEAL to share its experience in the field of renewable energies (REn), particularly with the building of Hassi R'Mel hybrid plant along with its prospects in terms on solar water heaters, solar air conditioning and desalination of brackish water by solar systems.

In conjunction with this exhibition, twenty presentations were given on topics related to the implementation of the renewable energies development plan in Algeria, renewable energies training and research and the energy efficiency plan.

Sonelgaz has marked its presence at this conference in two presentations. The first relates to the strategy of implementing the national development plan of EnR and the second has informed the audience on in progress and future renewable energy works projects, such as the project of manufacturing photovoltaic modules, electrification of villages in the deep Algerian Sahara by means of solar photovoltaic kits, and achievement of a pilot photovoltaic solar plant in Ghardaia.

16th Energy Day

The laboratory of fossil fuels of the Polytechnic National School (ENP) organized in Ben Aknoun training Center (CBA) the 16th edition of the Energy Day.

Under the theme "From candle to sustainable electricity : the challenges of 2030" , this annual meeting was held in three sessions: the first focused on electricity generation from fossil fuels, the second on renewable energy and the third addressed the future of energy .

On this occasion, the Sonelgaz CEO noted the exceptional efforts made since independence to improve the Algerians life quality, achieving an electrification rate above 98% and nearly 48 % penetration of gas. As far as the prospects are concerned, Mr. Boutarfa stated that " the future of our country depends on two interrelated factors: its industrialization and its research and development base. »

In this regard, Sonelgaz chief executive officer reiterated the importance of strengthening the links between the research sector and the enterprise , particularly with the implementation of the national plan which, by 2030, is due to generate 40% of electricity needs from renewable energies and notably from solar system.

2012

KEY FIGURES

TURNOVER

- The Group's turnover: 203 971 million DZD
- Turnover growth compared to 2011: 6%

GRAPH 1:

- Distribution and associated technologies activities
- Energy industries activities
- Parent company
- Services activities
- Works and Industrial production activities

GRAPH 1: TURNOVER BY SUBSIDIARIES

GRAPH 2: TURNOVER BY ACTIVITY (DISTRIBUTION)

- Electricity sales
- Gas sales

- Electricity sales: 156689 million DZD
- Gas sales: 27033 million DZD

GRAPH 3: TURNOVER BY DISTRIBUTION COMPANY

- SDE
 - SDO
 - SDC
 - SDA
-

INVESTMENTS

- Investment of the Group: 233 196 million dinars (8.3% growth in comparison with 2011)
- Distribution and associated technologies activities
- Energy industries activities
- Parent company
- Services activities
- Works and Industrial production activities

GRAPH 4: Investment of the Group

GRAPH 5: INVESTMENTS BY CRAFTS

- Electricity generation
- Electricity transmission
- Electricity distribution
- Gas transport
- Gas transport
- Other investments
-

GRAPH 6: INVESTMENTS BY ACTIVITIES

- Electricity
 - Gas
 - Others
-

HUMAN RESOURCES

- **Global staff: 72616 agents with 10 347 new recruits**
- **Training: 29663 agents (408 972 men/Days). That is an average of 7.4 training days per agent.**

GRAPH 7: SONELGAZ GROUP PERMANENT STAFF DISTRIBUTION

- Distribution and associated technologies activities
 - Services activities
 - Energy industries activities
 - Works and Industrial production activities
 - Parent company
-

ELECTRICITY

- **Power generation: 54 086.7 GWh (10.7% growth compared to 2011)**
- **Power sales : 43 150 GWh (10.9 growth compared to 2001)**
- **Power clients: 7 428 843 (4.6 growth compared to 2011)**

GRAPH 8: Distribution of power generation

- **SPE**
- **Thirds**

GRAPH 9: power sales

- **Low voltage**
 - **Medium voltage**
 - **High voltage**
-

GAS

- **Gas purchase: 24.9billion m³ (10.6%growth compared to 2011)**
- **Gas sales: 10.3 billion m³ (12.1% growth compared to 2011).**
- **Gas clients: 3 668 836 (9.6%growth compared to 2011).**

GRAPH 10: DISTRIBUTION OF NATURAL GAS PURCHASE FROM SONATRACH

- **SPE STATIONS**
- **DISTRIBUTION CLIENTS**
- **THIRDS' PRODUCERS**

GRAPH 11: NATURAL GAS SALES

- **LOW PRESSURE**
- **MEDIUM PRESSURE**
- **HIGH PRESSURE**

Emergency plan:

2012-2017

To cover soaring needs, it is necessary for Sonelgaz to double its power generation within five years. To respond to the Algerian electricity market needs, additional capacity planned for the period 2012-2017 amounts to achieve in five years, a capacity equal to the one currently installed.

2012/2017 electricity generation means:

A program was launched to strengthen the security of the power system constraints during the summer period and have a substantial reserve power.

This program relates to the interconnected system a capacity to produce electrical energy of about 12 000 megawatts, of which 3 300 megawatts during the period from 2013 to 2015, and 9,000 MW in the range 2016-2017. About 12 000 megawatts, 60 % will be achieved by combined cycle and 40 % in gas turbines.

2013 summer emergency plan:

To meet the high demand for electricity forecast for next summer, urgent measures regarding generation, transport and distribution of electricity are implemented. Group companies have been already organized to support this plan.

By summer 2013, the additional generation capacity to recover amounts approximately to 2,800 MW for the national interconnected grid (RIN) and nearly 262 MW for South remote networks (SRN).

The reinforcement plan for electricity generation can be summarized in the construction and commissioning of new facilities, the acquisition of mobile GT and improving fleet availability of SPE. The development of transmission and distribution of electricity is also scheduled to significantly reduce incidents and remove networks congestions.

For the South remote grid, the estimated generation capacity is divided into 136 megawatt gas turbines, for the regions of Tindouf , Tamanrasset , Beni Abbes and Timimoun , and 140 megawatts of diesel generator for the localities of the deep South .

Besides this plan of conventional generation capacity building over the period 2012-2017, there is the achievement, under project, of 800 solar origin megawatts. Generation capacity will be increased to nearly 24,000 megawatts by 2017.

ELECTRICITY GENERATION

The commissioning of an additional 2 030 MW power generated is due to take place as follows:

The combined cycle plant type (CC) of Koudiet Draouch - El Tarf (1 131 MW), the gas turbines (GT) station in Hassi Messaoud (68 MW), the GT station in El Oued (68 MW), the TG station in F'kirina - Oum El Bouaghi (240 MW), the GT STATION in Amizour - Bejaia (156 MW), the GT station M'sila (240 MW) and finally the TG station in Ain Djasser - Batna (127 MW). Commissioning a total capacity of 768 MW generated by rehabilitated generators is also planned in the power station of Jijel , Inmarsat (Oran) , Ravin Blanc (Oran) , Skikda , Bab Ezzouar (Algiers) and M ' sila . As for South remote Networks (SRN + Adrar Pole),

The acquisition of 54 new mobile diesel generators with a capacity of over 193 MW is expected to take place along with the rehabilitation of 68 others with a total capacity of over 68 MW. Six provinces of the south are concerned: Adrar , Bechar Ghardaia, Illizi , Tamanrasset and Tindouf.

It should be recalled that this reinforcement plan was decided in a context of high demand for electricity in recent years.

Summer 2012, precisely August 2, witnessed a very high demand amounting to 9 777 MW, representing a 13.6% growth compared to 2011. This upward trend is expected to continue in 2013, especially during periods of high temperatures, Algerians taking more and more comfort.

Electricity Transmission:

In order to dissipate the energy generated in the best quality service, the company GRTE defined a list of priority works to be completed before the summer 2013, in collaboration with the operating system, the company CEEG and distribution companies. The work was entrusted to companies: Kahrakib , Kahrif and Alelec . Being an extract from the medium term plan, this annual action plan consists in finalizing and commissioning new works in progress: 77 lines on 3 124 km length and 99 substations. A plan has also been set up to reinforce the existing VHV / HV transformer substations capacity and / or approve the installation of movable cabins.

These achievements will ensure security of electricity supply and will increase exchange capacity at the national level. The program of maintenance and rehabilitation of lines and substations with over 160 structures (cabins and power substations) that will be put into service will also be carried out.

Electricity Distribution

The 2013 summer reinforcement plan of the four Distribution Companies consists in strengthening the distribution networks before the summer.

In this respect, the CEOs of the distribution companies are committed to achieve nearly 7 000 new public distribution substations and 14 370 km MV / LV lines.

This program will cover almost the whole communes and particularly urban cities and regions that have experienced brownouts and blackouts problems during the summer 2012.

HIGHLIGHTS

Besides the uniqueness of 2012, which recorded a strong increase of 14% of electricity consumption, other highlights have been noted during the year 2012 in different areas of the Group notably the development, partnership, modernization of management and international cooperation.

TURNOVER

Constant growth

The consolidated turnover of the Group is constantly rising, from 192 billion dinars in 2011 to 204 billion dinars in 2012 that is a 6.3% increase. This increase is justified by the increase in revenues from sales of electricity and gas as a result of the increased volume of electricity and gas consumption. The sales growth was 10.2% for electricity and 28.7% for gas.

Despite the constant growth of turnover, the freeze of electricity and gas sales prices continue to negatively impact the Group's consolidated results.

233.2 billion dinars of investments

233.2 billion dinars were invested by all the companies within the Group during the year 2012, a similar level to that achieved in fiscal 2011.

The core business companies (generation, transmission and distribution of electricity and production, transport and distribution of gas) come to mind, with an amount of about 207 billion dinars that is a 2.4% decrease compared to 2011 caused by the postponement of opening some projects.

For works, industrial production and services subsidiaries, they have respectively devoted 10.6 billion dinars and 0.2 billion dinars for their investment spending.

Almost all program expenditures were covered by bank loans (including overdraft). The financing structure is as follows:

- Bank loan: 97%.
- Customer Participation: 3%.

The absence of state allocations reflects the importance of pre - financing of public programs whose expenses for the year are around 30 billion dinars.

Maximum Called Power

A historical record

This is the first time in the history of the Algerian electrical system that the maximum morning peak exceeded the recorded maximum called power (MCP) of the evening peak. Indeed, on June 27, 2012 at 14:00, MCP of 8 850 MW was recorded. During the same day, maximum called power recorded in the evening at 21:45 reached 8 725 MW. Thus, the morning peak outstripped the evening peak. These last two were almost at the same level during the summer.

This trend, observed in recent years, confirms a profound change in the structure of the daily load curve of the electricity consumption in Algeria. This confirms the significant impact of the massive use of air

conditioners running at full capacity, especially in the afternoon, since the number of customers and industrial activities have not changed.

The morning peak in 2012 has also been strongly increasing compared to 2011, that is a 14.7% growth, which corresponds to a gap of 1 220 MW.

SKTM: a new subsidiary of electricity generation

The power generation company in charge of the remote southern and renewable energy networks called **Shariket Kahraba oua Takat Moutadjadida**, abbreviated SKTM, is a new shareholding company with a capital fully subscribed by Sonelgaz and whose head office is located in Ghardaia.

It is within the aim of optimizing the electricity generation means in the South and promoting new electricity subsidiaries that this company has been created.

This subsidiary is mainly in charge of the operating of both remote power energy and renewable networks in the south. It also takes on the development of power infrastructures of the generation base in the remote southern networks (diesel and Gas Turbine). It is responsible for the operating, maintenance, management of the power stations which fall within its competence, and energy trading.

The next process to be performed on behalf of this company consists of a transfer of assets by installation type and upon resolution of SPE bodies, regarding all goods assigned to diesel pole which is initially brought under SPE. This transfer will, thereafter, allow for the recapitalization of the company by enhancing the transferred assets. Concerning the staff, sixteen people were recruited in Ghardaia. Since then, this core staff is following integration training in the diesel pole.

Rural electrification programs and public Gas distribution

National Plan nearing completion

The Sonelgaz Group has always been part and major player in the various plans and special programs for economic and social development, notably through the implementation of programs of rural electrification and public distribution of gas by pipeline.

The national plan for rural electrification and public gas distribution, under completion and worth a total amount of 378.4 billion dinars, significantly progressed in 2012 thanks to the efforts of the Group despite some obstacles that Sonelgaz faced for its implementation such as opposition to passages, delays in licensing roads, inadequate means of implementation, etc...

In 2012, the achievements of rural electrification are 1 019 km of network and 6 978 km of connections worth over 2 billion dinars. The overall implementation of the national program reached 98%. The programs called CIM, PC and Special Algiers have been completed.

Regarding public distribution of gas, transportation, network length of 557 km and 107 515 connections were carried out during 2012, representing 84% overall completion.

The cost estimate of this achievement was 25.3 billion dinars. The Algiers special program and Tlemcen special program were completed.

Five-Year Plan 2010 - 2014

In order to further improve the living conditions of the Algerian population, to ensure a harmonious development of rural areas and in continuity of the national plan under way, the Sonelgaz Group in cooperation with the government set up a five-year electrification and gas distribution plan spanning the period 2010-2014.

Being worth 211.6 billion dinars, the five year gas plan 2010-2014 includes the construction of 38 000 km of transportation and distribution of gas to connect more than one million households across 48 provinces.

The first phase of this project involves 184 communities and nearly 400 districts and housing estates. It also consists of the construction of over 7 390 km of distribution networks and approximately 228 thousand connections of gas, 65 thousand connections for SDC, 32 thousand for SDA, 53 thousand for SDO and 78 thousand for connections to IDS. The estimated cost of this first phase is set to 27 billion dinars. The launch of this project has been delayed due to the changes made on the funding procedures.

For electricity, the overall physical consistency of five-year plan 2010 – 2014 whose investment cost amounts to 11 000 billion dinars, is 4,827 km of network and 63 thousand connections distributed as follows: 1 556 km of network and 29 thousand connections for SDO distribution company, 114 km of network connections and 4 thousand for the SDA, 1 398 km of network, 11 thousand connections for SDC and 1 759 km of network and 20 thousand connections to SDE.

Partnership:

Manufacture of electricity generation equipments

Several partnership projects have been undertaken by Sonelgaz Group under industrialization and national integration. These are based on the principle of domiciliating the manufacturing equipment in Algeria within the aim of building an integrated energy system from manufacturing equipments, engineering, construction up to the operating and maintenance.

In this context, a call for expressions of interest was launched on December 14, 2010, for a partnership for the manufacture of gas turbines, steam turbines, generators and process control system.

This call for expressions of interest aims to the creation in partnership of a corporation - or many - whose mission is to set up an industrial compound in the engineering, procurement, construction, commissioning and marketing of products manufactured in Algeria.

The compound will consist of four plants: the first will be involved in the manufacture of gas turbines with a unit capacity of between 100 and 250 MW. The annual generation capacity of this plant is about 06 units; the second plant will manufacture steam turbines, each with a capacity between 50 and 250 MW; the third will be devoted to the manufacture of alternators to be coupled to turbines of the plants 1 and 2, to

convert their mechanical energy into electrical energy; and the fourth plant will produce process control systems to equip turbines manufactured in plants 1 and 2.

In addition, another call for expressions of national and international interest open to a partnership for the manufacture of boilers and heat exchangers for power plants was launched.

This call for expressions of interest aims to the establishment, in partnership, of a corporation whose mission is to achieve a manufacturing plant for recovery boilers for combined cycle power plants and heat exchangers designed for solar thermal plants (Power Solar Concentrator).

As such, the company is responsible for ensuring the engineering, procurement, construction and commissioning and marketing of products manufactured in Algeria. This call for expressions of interest was launched on 24 July 2011 and the bid opening of tenders was conducted September 21, 2011. All tenders for the two projects are under study.

New power plants under way

The achievement of Messerghine (Oran) power plant with a capacity of 2x200 MW was entrusted to French-American consortium General Electric International and Cegelec. This plant, which will be delivered in approximately 30 months, will meet the growing electricity demand.

Two combined cycle power plants, each with a capacity of 3x400 MW, are under way in Terga and Koudiet Draouch, besides the achievement of two other gas turbines stations in Djasser II (260 MW) and Labreg (280 MW).

Two combined cycle power plants in Ras Djinet and Ain Arnat, with a capacity of 3x400 MW each, and gas turbines plants in Hassi Messaoud (with a capacity of 500 to 600 MW approximately) and Hassi R'Mel (300 MW) are in the contract signature phase.

Sonelgaz, Terna (Italy) and TEIAS (Turkey) agreement signature

An industrial partnership agreement for the construction and management of electricity infrastructure in the Mediterranean was signed on 5 September 2012, in Tunisia between Sonelgaz, Terna (Italy) and TEIAS (Turkey).

This partnership will give birth to an industrial consortium that will develop and manage electrical infrastructure in the Mediterranean region. In addition, it will identify the investment opportunities in the region. Such opportunities will be developed according to the common patterns defined for each identified project and the development of studies and projects, and in cooperation with other operators if necessary.

The implementation of the first phase of this agreement is concretized by the establishment of a working group with the task of identifying the industrial cooperation goals and checking their sharing, taking into account the current organizational structure of each party. The said working group will identify the appropriate operational, organizational and industrial instruments to carry out the objectives of a shared industrial cooperation. Finally, they will present, within three months before the signing of the agreement,

a unanimous and shared report with operational proposals for the effective implementation of the consortium.

Modernization of management systems

Nova

A new information and human resources management system

This system was developed by the Group's own means. Designed by combined team composed of representatives of the HRD (owner), ELIT (main contractor) and companies.

Nova counts 260 functionalities divided in 5 modules for administrative management, payroll, careers, time and activities management as well as jobs and skills.

The first version of this application will integrate 68 priority functionalities, and which will shortly be tested at three pilot sites selected to be representative of the HR management, namely, SDA, ELIT and Sonelgaz.

The second phase will include 19 other functionalities, will undergo a second test after which Nova becomes operational and extended to 17 companies within the scope of a computerized personnel management, while the third phase, which will incorporate 173 new functionalities for the HR management, will be applied in all the companies of the Group.

ATTAD project

Towards better stocks management

New software, called ATTAD, for a better control of inventory management has been developed since January 2011 by a group of experts from CAMEG and ELIT subsidiaries.

The ATTAD 3 project which is due to be operational by the end of the year, provides improved functionalities of the current system with many solutions to the problems encountered in the utilized system since it can update the stock file, follow the movements and inventories of the stocks, and make automatic calculations of the acquisition and output costs of the weighted stocks.

Developed by the Group's own means, ATTAD allows, among others, the creation of a standard interface with the accounting system by providing basic editing statements. Conducted in three levels (inventory management, supply management and billing management), the first version of the new software involves the keeping of stock, the valuation and management of approach costs, management of serial numbers, inventory management and reporting.

The system will then be supplemented by a module comprising monitoring inventory levels, the automatic calculation of different thresholds, and the proposed management methods by item and analysis of equipment needs. Achieving the other two levels will subsequently be decided according to the priorities to complete business management. This project which is part of the overall strategic plan of the Group will be extended to the whole subsidiaries of the Group in the medium term.

Association of the Mediterranean power grid managers

The first president of the Association of the Mediterranean grid managers Med-TSO (Mediterranean Transmission System Operators) has been entrusted to Algeria at the meeting in Rome (Italy), held in April 2012 and punctuated by the signature of its establishment contract.

Given its pivotal role in the creation of this association, the CEO, Mr. Nouredine Boutarfa, was appointed President.

The Med-TSO Association which is headquartered in Rome, ensures the smooth exchange of information, analyses and experiences in power transmission in the countries of the Med-TSO association area, helps promote the coordination of the Med-TSO member countries' plans of development and operating networks, encourages the integration of electrical systems in the area, by putting in place the legal and regulatory frameworks, based on studies and analysis of the adequacy of the interconnected systems.

Among other tasks assigned to this association, the adoption of common standards and harmonized, transparent and non-discriminatory rules for access and use of networks, the promotion of new energy sources integration in the electrical systems, particularly renewable energy and new generation energy in compliance with safety requirements. Med-TSO is currently composed of five operators of power grids representing thirteen countries around the Mediterranean.

25th World Gas Conference

Forty topics based on various gas industry related activities were discussed at the 25th World Gas Conference, organized by the International Union for the gas industry (IGU) from 4 to 8 June 2012 at Kuala Lumpur (Malaysia). Under the theme entitled "Gas: Sustaining Future Global Growth", the 25th Congress saved the presentation of numerous conferences and papers presented by experts who discussed various issues related to technological, economic and environmental gas related developments. Over 3 500 officers among whom Sonelgaz and Sonatrach groups representatives took part in this event.

Human Resources

Sonelgaz group has once again, during 2012, emerged as one of the largest employers in Algeria. Devoting huge efforts to upgrade its agents, the Group has allocated a considerable budget amount for training and development of various electricity and gas related professions.

Employment

10 347 employees were recruited in 2012, that a 34.4% increase compared to 2011 which recorded a recruitment of 7 698 agents.

The Group's headcount was set to 72 616 agents at the end of the year 2012, that is an 5.8% increase compared to the previous year (68 652).

For 2012, increases of 5.7% and 5.9% were recorded respectively in the permanent and temporary staff.

Permanent staff represents 75.3% of the headcount, against 24.7% of temporary staff who are particularly concentrated in the prevention and safety activities in addition to works and industrial production activities.

The female workforce increased from 2 905 agents in 2006 to 6 269 in 2012 that is a 116% increase of per year. Recruitment of female staff represents 13% of all hires and 12.2% of the total permanent headcount, nearly half of whom occupies managerial positions.

Training

Training activities, of which expenses accounted for 5% of the 2012 payroll, concerned 29663 agents for all training courses (both specialized vocational training and professional retraining).

The training effort is 13.7 days per employee per year.

The overall performance training made by the Group during the financial year 2012 amounted to 29663 agents corresponding to 407 972 man-days.

The training sessions involved various areas including distribution activities, associated technologies and energy industries, as well as works and industrial production.

Other training actions

Training on the new integrated software Hissab

Nearly 700 employees in the finance and accounting departments attended training sessions from September to October, 2012, on the new integrated finance and accounting software Hissab.

This training has provided accounting and financial staff with knowledge on the operational accounting processing on all modules of the new system Hissab, related to the general accounting, cost accounting, investment management and asset management. It also helped to provide the accounting staff with operational tools to switch to the new Accounting and financial system (SCF) directly on the new system.

Hosted by Ben Aknoun, Blida, Ain M'lila and CIFI training schools, these training courses were supervised by pairs of mixed functional trainers and technicians from Elit, Sonelgaz and SDA finance and accounting management.

Occupations related to the solar photovoltaic

Blida Technical School (ETB) has launched two special training schemes for the benefit of SPE engineers who are in charge of monitoring projects of solar power plants construction and for the benefit of

maintenance operators of autonomous photovoltaic systems on behalf of SDC. These training activities are part of the group process to develop skilled human resources capable of achieving the ambitious renewable energy program.

Training is also provided to SPE engineers. This will enable them to monitor the projects of the construction and commissioning simple and hybrid photovoltaic plants (Diesel / PV). Spread over two months, this training is supervised by an educational multidisciplinary team that specializes particularly in cells and panel technology, description, commissioning and maintenance of PV systems, auxiliary components for a solar PV power plant, process control, monitoring and maintenance, Diesel/ photovoltaic hybrid systems, sizing photovoltaic plants and others.

In addition, twenty-six trainees from the PV solar electrified villages of Tamanrasset and Illizi have followed a seventeen week training in order to provide the distribution managements of these provinces with maintenance operators to ensure preventive maintenance operations of the autonomous photovoltaic systems already installed in the aforementioned villages. A multidisciplinary educational team oversees these operators who will be able, at the end of their training, to identify the equipment constituting an autonomous PV system to know the constitution of the panel and the solar cell, perform electrical measurements on a photovoltaic system in strict compliance with safety rules, measure the isolation of an installation and a cable and maintain the components of the system (PV field, batteries, inverter and controller).

Social Commitments

Each year, more than hundred sponsoring actions benefit from Sonelgaz Group contribution, whether in sport, art, culture, scientific events, social activities or environment.

In 2012, an amount of over 135 million dinars was undertaken to covering 147 sponsoring various events.

Sonelgaz participation in scientific, cultural and sports events

Solidarity and social action

Proximity Establishment

By solidarity actions, the Group in no way intends to replace the government but its intervention is but a support to alleviate hardship of the poor and score concrete solidarity towards them.

In 2012, nearly 10 million dinars have been committed to the implementation of several actions, such as:

1. Taking in charge electricity and gas bills of certain associations;
2. Purchasing equipment for the specific needs of the sick and disabled nationwide.
3. Participating in humanitarian caravans across the national territory;
4. Contribution to the creation of a sign language dictionary on the web.

Scientific research

A strategic activity

Modernity claimed by the company and its ongoing efforts to master up the technological lead it naturally to encourage, support and promote of scientific research for more progress in this area.

In this context, more than 19 million dinars were committed in 2012 to support more than 56 scientific events, including:

- 8th Conference of the Mediterranean Union of the thoracic pathology (UMPT) combined with the 21st National Day of pneumo-phtisiology organized by the Algerian company of pneumo-phtisiology from 8 to 10 June 2012 in Algiers.
- 11th International Symposium on programming and systems ISPS'2013 provided by the School of Electronics and Computer USTHB from 22 to 24 April 2013 in Algiers.
- 2nd International Symposium AACIA organized by the Association of Algerian internal auditors consultants on 24 and 25 June 2012.
- International Symposium on the theme " Algiers City, 50 years of independence: achievements and future prospects", organized by the Research Laboratory VUDD (urban city and sustainable development), the Polytechnic school of architecture and urbanism (EPAU- Algiers) on 7 and 8 November 2012 in Algiers.
- International Symposium in catalysis and chemical specialty (ISCSC), organized by the University of Tlemcen Aboubakr Belkaïd, from 23 to 26 September 2012, in Tlemcen.
- 3rd National Conference on fractional orders and their applications SOFA12 systems, organized by the Automation and Computing Laboratory, University 8-May-45 Guelma.
- 1st Conference on National infrastructure of geographic data, organized by the National Institute of Cartography and Remote Sensing, 16 and 17 October 2012.
- 1st Conference of the Algerian Chartered Accountants, organized by the National Association of the Algerian chartered Accountants, 10 and 11 December 2012, in Algiers.
- 17th Energy Day, organized by the Laboratory of fossil fuels recovery of the National Polytechnic School, scheduled on April 16th, 2013 in Algiers.
- Day on breast cancer screening, organized by the Algerian company of Radiology and Medical Imaging (SARIM), May 18, 2012 in Algiers.

- Winners award ceremonies of the university academic year 2012/2013.

Sport to unite energies

Every year Sonelgaz Group is present on all sports pitches. It reasserts its commitment to promoting sport in Algeria, being attentive to support both professionals and sports association of amateurs whose proximity establishment reflects the closeness of the company with its customers. Sports sponsorship has mobilized nearly 68 million dinars in 2012 in favor of 44 clubs.

In addition to its traditional support to the shareholding companies of sports clubs USM Alger and USM Alger CSA, the Group provides assistance to lower division clubs and training schools.

The Group also favoured Algeria Cup 2011/2012 finalists Entente Setif (ESS) and CRBelouizdad (CRB).

For other disciplines, such as basketball, handball, fencing, sports for the disabled, martial arts, etc.), the Group has also met the sponsorship applications made by federations and clubs like for example:

- Blida Energy and Mines Management who organized the second Mitidja international half marathon on March 21, 2012 in Blida.

- Algerian Fencing Federation, who organized the 19th Arab Junior and Cadet Championships, from March 9 to 15, 2012 in Algiers.

- Algiers League of sports for the disabled who participated in the Arab Nations Cup (handball boys) from 6 to 10 June 2012 in Algiers.

-Jijel Handball Club, Algeria finalist of the Junior Boys Cup which took place May 25, 2012.

- Association of Youth without Borders in Medea who organized the 6th session of the mini-games Olympic from June 29 to July 6, 2012, in Medea.

- CSA Tedjaret cycling- Djanet who organized the "Tassili cycling" from 1 to 8 January 2012, in Illizi.

- Algiers Sports League for the deaf who participated in international volleyball tournament from 29 to 31 December 2012 in Lausanne (Switzerland).

The Sonelgaz Group also supported several clubs under the sports season 2011/2012, such as:

- CSA Khobzi Mokhtar sport for the disabled in Biskra.
- CSA Esperance M'sila handball.
- El-Amel Women's Sports Association, Larba, Blida.

In the service of art and culture

Sonelgaz Group has been supporting well in advance s the country's artistic and cultural life, marking a notable presence at major events.

It has been permanently working to preserve the cultural and historical heritage and contribute to the promotion of Algerian culture in all its diversity and aspects.

In 2012, the 22 actions engaged under this heading benefited from a financial assistance amounting to over 6 million dinars. Sonelgaz Group took part in several events, including:

- National Days of Child theatrical spring organized by the art and culture Association Al-Afrah, from 17 to 23 March 2012.

- International child and book Seminar, under the slogan: "For the reading to be a right for all children of the world", organized by the Association Ettoufoula Essaïda from 24 to 26 March 2012.

- The 2nd Biennial Contemporary Art festival in Oran, organized by the plastic arts Association Civ-Oeil , from March 29 to 31, 2012, in Oran.

- 33rd edition of Tamanrasset Exhibition, Assihar, organized by the Chamber of Commerce and Industry Hoggar, from 29 March to 12 April 2012, in Tamanrasset province.

- 2nd edition of Festival Tabassit Tassili for the revival of heritage, under the slogan "Amsou Burst", organized by the cultural association Rapbrig Touareg Djanet, from 14 to 21 April 2012.

- International Conference on Abdelhamid Ben Badis political thought , organized by the Imam Sheikh Abdelhamid Ben Badis Foundation, on 16 and 17 April 2012.

- Arab-African Cultural Festival of folk dance organized by the Commission of Arab-African Cultural Festival of folk dance, from July 5 to 10, 2012 in Tizi-Ouzou.

- 17th edition of the International Book Fair of Algiers (Sila), which took place from 20 to 29 September 2012.

- 7th International Symposium on the living heritage of Nedroma city and region organized by the Association of Nedroma historical and cultural heritage El-Mouahidiya, from 13 to 15 December 2012.

Sustainable Development

A major concern

At the heart of the economy, but very attentive to sustainable development issues, Sonelgaz Group is committed towards concrete actions for environmental protection. Such actions benefitted in 2012 a financial assistance amounting to more than 32 million dinars.

In this field, the Group is working towards synergies in the sector's scale or in partnership with other stakeholders to achieve the large scale objectives, such as the operation "Sea Garbage collectors " or the reforestation campaign entitled "Loyalty: a tree for every martyr."

"Garbage collectors of the sea" Operation: an encouraging project

In recent years, Sonelgaz Group and its partners has met the best conditions to allow children to take small steps to preserve nature and becoming, in a beautiful day in June, the famous "sea garbage collectors ". For these live and kicking toddlers, such eco-citizen initiative has become a real live-size workshop. Sonelgaz Group and its partners have changed coastal beaches into recreational and educational spaces. In these areas, children learn the need to protect the beaches from pollution and discover the wonderful relationship between man and sea. The "Garbage collectors of the sea" operation aims to show children that simple actions can be crucial for the protection of the environment. Such action is extended to other new beaches every year. It concerns all coastal provinces nationwide.

In 2012, 17 sites scattered across 16 coastal provinces of the country were cleaned simultaneously.

Reforestation

«Loyalty Campaign.

A tree for each martyr»

Sonelgaz Group does not remain indifferent to the efforts over the last fifty years in preservation of our forest resources, threatened by fire, excessive exploitation and desertification phenomenon which are spreading at an alarming rate.

One concern that was reflected on the field in 2012 by sponsoring a reforestation campaign entitled "loyalty campaign, a tree for every martyr" which was organized by the Tamanrasset National Organization for the Protection of Environment and Tourism Exchange, from October 27th to January 26th, 2013, throughout 48 provinces of the country.

This operation was aimed at planting of a million and a half trees as the first phase, followed by a spray operation.

GRAPH 1: DISTRIBUTION OF THE SPONSORING COMMITMENTS FOR THE YEAR 2012



Summary of activities

The year 2012 was devoted to consolidating the process of construction, preparation, accompanying the companies of generation, transmission and distribution of electricity and companies of gas distribution. It was also designed for the mobilization of all the resources of the companies work for the effective implementation of emergency plans in order to meet high energy demand. In addition, the fiscal year 2012 was marked by a significant increase of all performance indicators of the Group in all activity areas.

Electricity generation

Power generation for the year 2012 has attained 54.1 TWh, that is 107, 9% of forecast and 10, 7% growth compared to 2011.

This generation was made up to 29 TWh (+7.8% compared to 2011) by SPE generation means, that is a 53.53% contribution and up to 25.1 TWh by thirds, that is a 46.47% contribution. Achieving below expectations by thirds of 89% is largely due to the delay in the commissioning of Koudiet Draouche combined cycle plant. This gap was offset by power stations of the subsidiary SPE (150% of the forecast for the year).

The installed capacity reached 12 930 MW (+1 524 MW compared to 2011).

This significant increase is due to the significant strengthening, following the commissioning of SK Terga power plant with more than 1 200 MW and 324 MW capacity of the generation stock of the southern networks of SPE subsidiary:

- 4 mobile TG (4 x 23 MW) in El Oued.
- 2 mobile TG (4 x 23 MW) in Timimoun.
- 2 mobile TG (2 x 19 MW) in Tindouf, Tamanrasset and Beni Abbes.
- 5 TG (5 x 5 MW) in the new plant In Aménas.
- 4 TG (3 x10 + 1 x 5 MW) in El Goléa new plant.
- 9 Diesel 500 kW generators in locations of Tabelbala (1 generator), South West 3 (2 generators), Oum Lassel (1 generator), BB Mokhtar (3 generators), Tindouf (1 generator), Guezzam (1 generator).

In addition, 2012 has also recorded several 14 new work sites among which northern interconnected network regarding Boutelelis TG plants (2x100 MW), Hassi Messaoud (500 MW) and the acquisition of several TG mobile generators to strengthen the power supply in the southern areas such as Tindouf, Tamanrasset, Beni Abbes, Hassi Messaoud and El Oued.

The total availability is 79.18% for SPE generation stock and over 90% for third-party generators, except for SKS (86.5%) due to the unavailability of the tranche n°2 in December 2012.

International trade

International exchange with neighboring countries show a net import balance with ONE (Morocco) of 8.27 GWh and net export balance of 3.98 GWh with STEG (Tunisia). With ONE, an export exchange balance of 53.74 GWh was achieved in 2012.

Electricity transmission

In 2012, the length of the transmission network increased from 22 370.1 km in 2011 to 23 778.6 km in 2012 that is 1 408.5 km were commissioned. Also, in 2012, 18 substation works 26 line works were commissioned; the strengthening of the telecom network by the operating of 15 new routes totaling nearly 943 km of optical fiber; connecting 04 new clients (01 THT customer and 03 HT customer), namely: Tramway Constantine, Desalination Mac-TAA - Adwane Chemical and Tramway d'Oran.

The main standards of 2012 electricity transmission activity

- An average time cut of 77.25 minutes TIM without exceptional incidents (80.49 min with IE) against 48.18 mn in 2011.

The total undistributed energy including power outages resulting from transit constraints due to delay in the completion of the development plan of the transport network is 82.2 minutes.

- 4.66% loss rate against 4.5% target that is a 4% decrease compared to 2011.
- A network transmission availability of 97.21% against 97.91% in 2011.
- The number of incidents per 100 km attained 11.61 against 13.11 in 2011 for a target of 8.
- A line growth line network with 1210 Km of which 389 Km in 400 kV.
- An increase in the transformation capacity of 3 525 MVA.

Inauguration of the 220/60 kV new substation in Tissemsilt

A new 220/60 kV substation was inaugurated by the authorities of Tissemsilt province and GRTE officials on July 5, 2012, on the occasion of the fiftieth anniversary of independence. Extending over 46 125 m², this work is intended to strengthen and secure power supply for Tissemsilt province and improve the quality and continuity of service in all districts and municipalities to meet the province socio- economic development requirements.

Gas transportation

The network operating was characterized by balancing the gas system and the provision of transportation capacity for all users on the gas transportation network. Natural gas transit reached 26.7 billion m³ in 2012, that is a 8.9% increase compared to 2011, and a completion rate of 97.6%.

85 PD were put into service and 19 work sites were conducted in 2012.

Main standards of 2012 gas transportation activity

- Set up of nine (09) gas transportation district projects, namely: Bechar, Sebdou , Arzew , Bougaa , Aris , Barika , Boughezoul , Sour El Ghezlane and Bir El Ater .
- Normal operating of the gas transportation network.
- Balance of the gas system and availability of the transportation capacity by all users of the gas transportation network.
- An equivalent cutoff rate of 1.60 mn due to incidents from operating for 0.5 mn target against 0.24 mn in 2011; such increase compared to 2011 is mainly due to the incident occurring on the Bejaia pre-expansion substation on 12 February 2012, which led to a very high Non Distributed Energy (NDE) of 50 000 m³ on a total operating NDE of 81 724 m³, that is an equivalent cutoff rate of 1,6 minutes leading to exceeding the target of 0.5 mn.
- Supplying of all counting substations (deliveries substations) with electronic converters.

Bordj Menaiel Azzazga gas operating artery

A new gas artery connecting Bordj Menaïel east Boumerdes province to Azzazga east Tizi Ouzou province was commissioned in July 2012 by the Algerian company of Gas transportation network management (for GRTG in French) .

With a capacity of over 150 000 m³/ h, the new high pressure natural gas pipeline is reinforcing the old pipeline. With a 16 inches diameter and a 65 km length, this artery was interconnected with the old 8 inches structure with a capacity of 40 000 m³ / h, supplied with gas in the seventies. The operating of this important gas infrastructure will secure the supply of two concerned provinces and remove all the congestion constraints during cold periods. In the immediate future, this new work will supply eight municipalities with natural gas. 12 other cities will have benefitted from this gas supply by 2013 and 2014.

Inauguration of two gas public distributions in El Bayadh province

Two gas public distributions were completed in favor of 1 060 homes in the El Bayadh province .Thanks to these new distributions, the gas penetration rate in this province reached 58.8 %. In the commune of Tismouline, a new gas network of gas for the supply of 691 homes was put into service. In the town of Kef Lahmar , Rogassa district , at 40 km north from the center of the province, gas network has been put into service in favour of 373 households.

This gas public distribution required the construction of two transportation and distribution of gas at a respective length of 39 and 10 km. Registered within high plateaus, these two projects have increased natural gas supply in this province from 56.6 % at end 2011 to 58.8% in April 2012. Of the 22 municipalities of the province, 18 are currently connected to the natural gas network, while three other gas public distributions are underway in Rogassa , Stiten and Cheguig districts.

Electricity and gas distribution

Electricity customers

The 2012 recorded a growth of 326 377 customers, representing an increase of 10.2% compared to 2011 , and a completion rate of 110.6 % due to the development of the programs in housing construction , that is 45.6 % jump leap compared to 2011 .

Thus, the total number of electricity customers by end-2012 amounted to 7 428 843, that is an increase of 4.6% compared to 2011, and can be broken down as follows:

Low voltage:

7,381 million (+4.6% / 2011).

Medium Voltage:

46 thousand (+3.9 % / 2011).

High voltage:

103 clients (+1 % / 2011).

Electricity sales

The energy billings totaled 43.1 TWh, that is 4.3 TWh more than in 2011, corresponding to a forecast completion rate of 105.7 % and a 10.9 % growth over the previous year. This important growth in billings is justified by the strong increase in sales to low voltage customers, 14.4% (due to heavy summer heat), and to medium voltage customers, 9.1%. The 4.5% sales growth to industrial customers compared to 2011 is due to the significant changes in the sectors of water, transport and to a lesser extent to the areas of chemical, plastic and steel industries.

Gas customers

Gas customers growth for the year 2012 is 322 416 customers, which records a very strong increase of 28.7% compared to 2011 justified by the significant increase in low pressure customer supply due to the implementation of gas public distribution programs.

The total number of gas customers reached 3 668 836 at the end 2012 that 9.6% increase compared to 2011, and is divided as follows:

Low pressure customers:

3,663 million (+9.6% / 2011)

Medium pressure:

4,727 thousand (+6.7% / 2011)

High pressure:

206 customers (+2.0% / 2011)

Gas sales

Total billings of all combined gas pressure customers amounted to 10.29 billion m³ that represents 95% achievement of the annual target and 12.1% growth compared to 2011. This increase is justified by higher sales to low pressure customers of up to 18.2 % compared 2011, medium pressure customers for up to 7.9% , and High Pressure customers for up to 1.2%.

MV customer telemeter reading

The Medium Voltage customer telemeter reading system has been endorsed (platforms, meters) by the company of measuring and control devices (standing for AMC in French) and the electricity and gas distribution companies. AMC subsidiary will exclusively take on the mission of providing four distribution subsidiaries with meters with their modems, ensuring the installation of such devices at the customer's premises, initiating equipments with the required software at each distribution company, ensuring staff training under a defined program, ensuring meter maintenance, hardware and software in collaboration with its partner following the expiry of the warranty period. Thus, a global schedule for the achievement of the contract has been established with the start of training within 3 months after the contract signature.

The new telemeter reading system comprises a set of data acquisition (meters with modems), a communication technology (GSM-Data / GPRS) and a computing platform.

Implemented in 58 distribution managements, it aims to develop a long term policy of counting, modernize the system of energy management, assess and reduce losses, optimize customer management and improve cash flow.

Audit and inspection

The audit is considered by Sonelgaz as the cornerstone of sound governance, since it provides an objective and impartial assessment of the liable and effective management of various subsidiaries.

During fiscal 2012, the audit management of the Group achieved 67 missions that is a target completion of 103%. Of the 57 missions conducted at the distribution companies, 36 focused on customer management (reports, billing, collection ...).

As regards the technical audit , 36 missions were conducted at seven companies of the Group (SPE GRTE , GRTG , SDA , SDC, SDE , SDO), outstripping forecasts by 57%, mainly due to the reorganization of the missions, and completion of all 2011 remaining. As concerns the inspection missions, 10 were carried out on the ground and were related to the signing of procurement deals and execution of contracts, human resources management and payment of realization companies.

The missions and operations of control and inspection conducted by the Group's subsidiaries in 2012 have focused on technical and management areas (finance / accounting, human resources).

The total number of control missions and operations is 1 584.

Prevention and safety

Safety indicators recorded during 2012 show a stable frequency rate and degradation of severity rate in comparison with those of 2011.

The frequency rate recorded is 5.64% against 5.61 in 2011 that is an increase of 0.53%. The severity rate is 0.76 % against 0.59% in 2011 that is an increase of 28.81 % compared to 2011, due to the rise in fatal accidents (16 were recorded in 2012 against 10 in 2011).

Significant efforts are necessary for the respect safety rules, notably to the operating personnel in distribution subsidiaries who recorded nine fatalities.

For internal security establishments (ISE), in addition to current operations, efforts were made in 2012 as regards the maintenance of telemonitoring systems, follow-up and control of compliance operations, strengthen ISE infrastructures and upgrade warning systems.

FINANCIAL

REPORT

1. Introduction

The year 2012 has been difficult again for Sonelgaz Group, especially the distribution companies, due to the structural problems of its very delicate financial situation.

These problems, recurrent today, may be summarized as follows:

- The limited impact of fiscal consolidation measures adopted by the government in 2010, which generated a return to bank overdraft.
- The implementation of funding to cover the investment programs brought about by the Group's strategy to develop a national industry (notably the renewable energy program) combined with the needs for energy infrastructure development.
- The recourse to significant indebtedness to cover the development needs.

In this context, the non-implementation of all measures taken by the government continues to heavily penalize the Group.

To this end, two important issues remain unanswered:

- The non-refund of VAT tax whose amount reached 68 billion dinars at the yearend 2012.
- Pre-financing public programs, in the absence of mobilization of state subsidies, amounting to 119 billion dinars that generate significant bank charges on overdraft.
- Delays by the State to repay debts resulting from supporting consumers in the South and High plateaus.

The consequence of this situation, coupled with a level of receivables which reached 45 billion dinars, generated a negative cash position amounting to 79 billion dinars.

Sonelgaz Group intends to seek again the government to settle this financial stabilizing file once and for all, and plans for the effective implementation of the tax status specific to its companies.

In addition, fiscal 2012 have also witnessed the carrying out of important actions to improve the quality of financial and accounting management of the Group companies. The most important actions are:

- The commissioning of the new bookkeeping system Hissab.
- The set up of the application program for automatic consolidation of the whole Group companies accounts.
- The reconciliation of all Group companies transactions.

In terms of activities, it is necessary to highlight:

- The merger of the company Armel, which merged with the company MEI within the scope of 2011 consolidation.
- Fiscal consolidation of all subsidiaries (25) totally held by Sonelgaz.

- The accounting consolidation of all companies and the Group' stakes in 41 companies.

2. 2012 INCOME STATEMENT

2.1 Consolidated Management accounts:

The analysis of the consolidated income statement for the year 2012 shows a slight improvement in consolidated income compared to fiscal 2011, but the financial and accounting situation remains deteriorated. Indeed, although the 2012 consolidated net income has exceeded the forecasts, it showed 8.8 billion DZD deficits.

However, this gap is smaller than that of 2011 that is an improvement over the previous year by 18%.

The deficit income for the year 2012 is the same as those of previous years, mainly due to:

- The weak income growth mainly due to the freeze of electricity and gas sale tariffs.
- The direct costs increase, particularly those related to power and gas purchase from thirds producers and Sonatrach.

As such, 2012 deficit result is virtually generated by the distribution companies that have absorbed all costs' increase with capped income levels.

The 2012 consolidated net income are broken down as follows:

- **Operating income:**
 - 0.8 billion dinars.
- **Financial income:**
 - 12.8 billion dinars.
- **Net income from ordinary activities:**
 - 12.1 billion dinars.
- **Extraordinary income:**
 - 0.1 billion dinars.
- **Share in net results of the equivalent companies:**
 - + 3.4 billion dinars.
- **Net consolidated income of the whole companies :**
 - 8.8 billion dinars.

2.2 Income

Total income from ordinary activities of the Group companies amounted to 232.5 billion dinars in 2012 that is a 3% in growth compared to the previous year.

This increase is primarily due to the growth of the consolidated turnover passing from 192 billion dinars in 2011 to 204 billion dinars in 2012, that is an increase of 6% as well as reversals of impairment losses and provisions with an increase of 23% compared to 2011, that is a variation of 2 billion dinars despite a notable decrease at other operating income for 2 billion dinars.

2.2.1 Sales

The (gross) turnover rose by 43 billion dinars compared to 2011. This increase was generated by:

- The core business companies whose revenues increased by 35 billion dinars broken down as follows:
 - 21 billion dinars for electricity and gas distribution companies, due to the increase in sales of 10.9% of electricity and 12.1 % for gas.
 - 9 billion dinars for SKT due to start-up of generation following its implementation exploitation in 2012.
 - 3.6 billion dinars for GRTE due to increased electricity transit , that is a total energy of charged for 51,123 GWh against 46197 GWh in 2011, representing 10.7%.
 - 1.6 billion dinars for GRTG due to the positive development of turnover related to transport of 26.72 billion m³ in 2012, that is 8.9% growth compared to 2011.
 - Works companies who the turnover is increased by 3.7 billion dinars due to the increase in physical achievements of Kahrakib whose business recorded a 4% rise compared to the year 2011.

It should be noted the decrease in the number of business of the company Kanaghaz by one (01) billion dinars. This decrease resulted from the shift in the launch of tenders for the gas program.

- Service companies whose revenues increased by 3.7 billion dinars broken down as follows:

- 4.8 billion dinars for SPAS. This increase is mainly due to the impact of the new pricing, effective from January 1, 2012, that is a growth rate of 55.3% compared to 2011.
- 1.2 billion dinars for AMC. The most significant contribution in the turnover increase comes from the power meters sales for 48 %, followed by 21 % for gas meters and at a lesser degree breakers and CDR (power breaker management relay) for 11.1%.
- 1.5 billion dinars for the remaining subsidiaries.

It is worth underlining the drop of 4 billion dinars of CAMEG turnover for the second consecutive year due to lower sales of «Gas Transport equipments" by 24% in 2012 compared to 2011.

Net sales (net of the inter-Group companies operations) increased by 12.1 billion dinars compared to the year 2011, from 191.9 billion dinars in 2011 to 204 billion dinars in 2012, that is +6% growth compared to 2011) .

2.2.2 Other operating income

It totaled 13 billion dinars that is 14% decrease compared to 2011. The most important assessments are as follows:

Distribution companies:

- 3.6 billion dinars.

GRTE: - 0.3 billion dinars.

SPE: + 0.6 billion dinars.

GRTG: + 0.2 billion dinars.

Third power producers (SKS, SKB, SKT, SKD): 0.4 billion dinars.

2.2.3 Financial income

Financial income decreased by 52% in 2012 compared to 2011, that is falling from 1.5 billion to 0.7 billion dinars. This variation is mainly due to the decrease of foreign exchange gains related to the updating of the foreign currency debt balance, at the purchase price as at 31 December 2012.

The main companies involved in this decrease are :

SKS: - 410 million dinars..

SPE: - 35 million dinars..

GRTE: - 84 million dinars..

The income structure for the year 2012 is presented as follows:

Sales

Other operating income

Reversals of impairment losses and provisions

Fixed production

Financial products

Graph 1: 2012 INCOME STRUCTURE

2.3 EXPENSES

Expenses generated by ordinary activities of Sonelgaz Group companies in fiscal 2012 amounted to 244.6 billion dinars that is a 2 % growth compared to fiscal 2011.

2.3.1 Raw materials and consumables

2012 consumption decreased by 5.4 billion dinars from 82.3 billion dinars in 2011 to 76,9 billion dinars in 2012, (-7% / 2011) .

- Purchases

This item shows a decrease of 9 % compared to 2011, from 56.8 billion dinars in 2011, to 51.5 billion dinars in 2012. This decrease was primarily due to lower consumption of the following subsidiaries:

- CAMEG: 3.7 billion dinars due to decrease in sales in 2012.
- KAHRAKIB: 0.7 billion dinars due to the predominance of works component related to electrical supplies.
- SPE: 0.6 billion dinars due to the deferral of maintenance of Hassi Berkin power station on behalf of Sonatrach.
- SONELGAZ: 0.4 billion dinars. This decrease is justified by a fall in the volume of electricity purchases from SPE.

- External services and other consumption

External services totaled 25.4 billion dinars as at 31 December 2012, against 25.5 billion dinars in the same period of 2011 that is 1% decrease.

In reality, this item recorded a service movement of the intra- group companies amounting to 71 billion dinars in 2012 that is 12% increase compared to 2011.

The main subsidiaries which contributed to this increase are:

- Distribution companies: (+6) billion due in particular to GRTE and GRTG transit billings which represent 24 % of costs and middlemen commissions and fees.
- SPE (+ 2.1) billion dinars due to the following:
 - The increase of the general intragroup subcontracting passing from 3.4 billion dinars in 2011 to 4.9 billion dinars in 2012.
 - Other external services (+0.5 milliard dinars) consisting, essentially, of gas transit payment, fees and banking and similar services for 2.7 billion dinars.
- GRTE (+1.8) billion dinars which is justified by the increase in SPAS services and CEEG mastery of work.

2.3.2 STAFF EXPENSES

Staff expenses totaled 71.6 billion dinars as at 31 December 2012, against 61.7 billion dinars in the same period of 2011 that is 16 % increase, due to the following:

- The release of the second installment of increases decided in 2011 that were fully paid.
- The growth of the Group' staff.
- Promotions and upgrades granted to employees during fiscal year 2012.

2.3.3 Depreciation and provisions allocations

This item has increased by 7% compared to 2011 , that is 71.9 billion dinars in 2011 against 76,9 billion dinars in 2012, reflecting increased investment of the Group (integration of new structures put in service during 2012) as well as transfers to property , made primarily by core activities subsidiaries for 122.8 billion dinars :

SPE: 37 billion dinars.

GRTE: 23 billion dinars.

GRTG 27.8 billion dinars.

SDA 3.3 billion dinars.

SDC 9.7 billion dinars.

SDE 11.1 billion dinars.

SD0 10.9 billion dinars.

2.3.4 Financial charges

Financial expenses amounted to 13.5 billion dinars in 2012, against 14.2 billion dinars in 2011 that is -5 % decreases which is mainly due to the incorporating of borrowing costs into asset costs for 2012, and in accordance with authorized SCF (Accounting and Finance system) processing.

Total expenses structure of the Group's activities for the fiscal 2012 are as follows :

Depreciation and provisions allocations

Staff expenses

Purchases

External services and other consumptions

Financial expenses

Taxes and equivalent

Graph 2: 2012 Expenses structure.

3. Economic and financial results

3.1.1 Gross operating surplus

Gross operating surplus is changing by 17 % in comparison with 2011, passing from 47.8 billion dinars in 2011 to 56 billion dinars in 2012. This increase is mainly justified by the significant increase in sales, against a drop in consumption in 2012.

3.1.2 Operational result

This item, although it is still in deficit, showed a significant improvement of 85 % compared to the previous year, due to the improvement in EBE and the increase in "recovery impairment losses and provisions" item by 23 % in 2012, and the decrease in the item "Other operating expenses" by 29% in 2011.

3.1.3 Financial income

Financial income increased from a deficit of 12.7 billion dinars in 2011 to 12.8 billion dinars in 2012, that is an increase in the deficit of around 1% in 2011 following the significant decline in financial products by 52 % compared to the previous year.

3.1.4 Net profit from ordinary activities

This item recorded a deficit of 12.2 billion dinars in improvement over the previous year which was also in deficit of 13.5 billion dinars that is an improvement of 12 % in 2011 due to the increase in total products of the fiscal year 2012 to 3% in 2011 and total expenses decline by 2% in 2011.

3.1.5 - 2012 Consolidated net income

Consolidated net income shows 8.8 billion DZD deficits. The net result is three (3) times lower than that forecast in the budget 2012 and 18% improvement compared to the previous year, in which the deficit was 10.7 billion dinars.

2012 net income is as follows:

Profit before tax:

- 13.5 billion dinars.

Deferred tax:

+ 1.4 billion dinars.

Share of net results of associates:

+ 3.4 billion dinars.

Consolidated net income improved in 2012. The increase of revenue is primarily due to the increase in consolidated sales, which rose from 191.8 billion dinars in 2011 to 204 billion dinars in 2012, that is 6% increase, and increased amounts of reversals of provisions that pass from 8 billion dinars in 2011 to 10 billion dinars in 2012, that is 23% increase.

Graph 3: 2012 Net results by subsidiary (millions DZD)

The graph (3) shows the net income of companies that generate profits and those which, on the contrary, generate deficits.

It appears that except for SKD Company which is a project under way, overall deficits are generated by electricity and gas distribution companies.

The four companies show a net deficit income of 24.5 billion dinars, of which almost half is attributed to SDO.

This deficit is generated mainly by the freeze of electricity and gas tariffs since December 2005.

The distribution companies will still induce a strengthening equity operation for the year 2012 to prevent them from falling under the Article (75 bis) of the Commercial Code relating to the decrease in companies net assets and measures to pursue the operating.

4. Analysis of the 2012 consolidated balance sheet

Total consolidated assets amounted to 2 321 52 billion dinars, that is a 13% growth compared to 2011.

4.1 Assets

4.1.1 Non-current Assets

- Tangible assets

The overall change in tangible assets between the years 2012 and 2011 is 230.9 billion dinars, with 27 % increase over 2011.

The rise is generated by increased investment which lies mainly in generation, transmission and distribution of power, and transport and distribution of gas. This is reflected in the following:

- Increase in installed capacity of 324 MW for SPE.
- Commissioning of generating units at SKT (3 x400Mw)
- Completion of 1 409 km of lines, 18 substations, increased transforming capacity of 3 525 MVA and 170 MVAR by means of compensation for electricity transmission.
- Completion of 127 gas works (105 gas transportation antennas and capacity strengthening of 15 delivery points) for a total length of 1 432 km for gas transportation.

- Total achievements of physical investments, all combined programs have reached 10 035 km for distribution companies.
- The graph below highlights the growth by type of fixed assets and confirms the Group's commitment to meet national energy needs.

Graph 4: Evolution of fixed assets in billions of dinars.

- Financial fixed assets

This balance sheet item increased from 89.6 billion dinars in 2011 to 103,9 billion dinars in 2012, that a 16 % growth that can be justified by:

- Equity accounting reprocessing amounting to 13.7 billion dinars at the consolidation and 57.7 million dinars at AMC (SMS securities: Sensus Metering System Algeria).
- The reclassification in other non-current assets of 68 billion dinars of VAT deduction against 61 billion dinars in 2011.

4.1.2 Current Assets

- Inventories and stocks in progress

This item increased by 47 %, from 32.7 billion dinars in 2011 to 48 billion dinars in 2012. This increase is mainly located at the following:

- At CAMEG, the variation is 15 billion dinars due to the increase in purchases and low sales during the year.
- At Rouiba éclairage which achieved 98% of its production goals, the inventory variation between finished and in progress is 255 million dinars.

- Receivables and related jobs

For the year 2012, this item increased by 29.2 billion dinars, that is an 11% rise compared to 2011, justified mainly at the following:

- Kanaghaz , services on behalf of Sonatrach.
- Kahrif, achievement of public lighting .
- Distribution companies, by increasing the number of customers connected to any type of energy (335 831) and increasing by 10.9% in electricity billings to customers (all voltages combined), that is 43.1 TWh and 12.1% of gas billings, or 10,294 million m³.

Regarding the reconciliation of intercompany transactions of payables and receivables accounts of the Group's companies, the movements rose by 20%, passing from 947 billion dinars in 2011 to 1 141 billion dinars in 2012.

The resulting reconciliation rate has reached 99.99 % in 2012 against 99.93% in 2011.

It is important to note that the difference recorded on the balance away from this exercise is mainly VAT.

The graph below gives an overview of the growth compared to 2011 "Receivables and related jobs entries" by kind:

customers

Other debtors

Taxes

Other current assets

Graph 5: Receivables and equivalents growth (in billion dinars)

The structure of the consolidated fiscal year 2012 assets is as follows:

Tangible assets

Fixed assets under way

Receivables and equivalents

Cash and cash equivalents

Financial assets

Stocks and work in progress

Graph 6: 2012 ASSETS .

4.2 Liabilities

The total consolidated liabilities reached 2 321, 52 billion dinars, that is an increase of 13 % compared to the previous year.

4.2.1 Equity CAPITAL

Equity capital decreased by 1% compared to 2011, from 564.3 billion dinars in 2011 to 560,8 billion dinars in 2012. This change in equity capital is due to the following:

- Release of SKT called capital for 2.1 billion dinars.
- Release of SKD called capital for 2.2 billion dinars.
- Decrease in other equity and carried forward by deferring deficit results of the previous years. The breakdown of the equity capital is shown in the table (1) below:

Table 1: Changes in equity capital (in million dinars)

Items	Share capital	Premium issuance	Other Equity capital	Evaluation Difference	Reevaluation difference	Reserves and results
Balance as at 31December 2011	150000	0	213126	4210	30345	166637
Equivalence difference				6080		
Changes of accounting methods involving equity capital						-11234
Errors affecting equity capital						
Fixed Assets' reevaluation					207	
Profits or losses Non accounted in the income statement						
Dividends paid						
Capital increase			500			
Non called Capital			-4704			
Net income of the Year						1933
Reserves						3699
Balance as at 31/12/2012	150 000	0	208972	10291	30553	161034

4.2.2 Non-current liabilities

The level of non-current liabilities increased by 21% in 2012 compared to the previous year, that is a positive variation of 250.4 billion dinars. This variation is primarily at the level of borrowings and liabilities and deferred revenue which grew by 204.4 and 49.3 billion dinars. For loans, it is noted in the accounts of Sonelgaz, a significant mobilization of funds from state-owned banks in the order of 160.3 billion dinars to finance development programs of the Group companies. Similarly, significant changes in debt in the accounts of SKD (over 29 billion dinars) and SKT (over 15 billion dinars) are due to the mobilization of loans during 2012 of approximately 108.3 billion dinars to the CPA for SKD and 17.6 billion dinars from BNA to SKT.

For liabilities and deferred revenue, the most important change is in the accounts of the parent company; it is the subsidies receivable from the State for an amount of 29.6 billion dinars. The rest of the variations of this account represents the provision for personnel expenses.

4.2.3 Current liabilities

This item has recorded 9 % increase in comparison with 2011, from 286 billion dinars in 2011 to 311 billion dinars in 2012.

Payables and related accounts

Accounts payable increased by 20 %; it is primarily investments debt resulting from sustained efforts of the Group in this matter.

Overdrafts

Overdrafts has decreased by 3% in 2011, that is from 81.8 billion dinars in 2011 to 79,1 billion in 2012.

This decrease is justified by the new bank overdraft, generated primarily by the operations of public programs pre-financing. The consolidated liabilities of the financial year 2012

are presented is as follows :



Graph 7: 2012 LIABILITIES.

Table 2: 2012 consolidated income statement (in millions of dinars).

ITEMS	2012	2011	2012/2011 Growth
Turnover	203 971	191 864	6%

Changes in stocks of finished and semi-finished products	228	-195	-217%
Fixed production	4 722	4 741	0%
Operating subsidies		0	
I- PRODUCTION FOR THE YEAR	208 922	196 410	6%
Consumed purchases	51 536	56 781	-9%
External services and other consumption	25 363	25 521	-1%
II- CONSUMPTION FOR THE YEAR	76 899	82 303	-7%
III- OPERATING ADDED VALUE (I-II)	132 023	114 108	16%
Staff expenses	71 597	61 688	16%
Taxes and equivalents	4 393	4 663	-6%
IV- GROSS OPERATING IN EXCESS	56 033	47 756	17%
Other operating products	12 812	14 909	-14%
Other operating expenses	2 754	3 886	-29%
Allowances to depreciation and provisions	76 893	71 887	7%
Recovery on loss of value and provisions	10 042	8 146	23%
V- OPERATING RESULT	-760	-4 962	-85%
Financial products	733	1 538	-52%
Financial expenses	13 540	14 252	-5%
VI- FINANCIAL RESULT	-12 807	-12 714	1%
VII- ORDINARY RESULT BEFORE TAX (V+VI)	-13 567	-17 676	-23%
Tax due on ordinary result	0	0	
Deferred tax (changes) on ordinary result	1 473	3 982	-63%
TOTAL PRODUCTS OF ORDINARY ACTIVITIES	232 509	224 985	3%
TOTAL EXPENSES OF ORDINARY ACTIVITIES	244 603	238 679	2%
VIII- NET RESULT OF ORDINARY ACTIVITIES	-12 094	-13 693	-12%
Extraordinary items (products) (to clarify)	111	220	-49%
Extraordinary items (expenses) (to clarify)	231	8	2973%
IX- EXTRAORDINARY RESULT	-120	212	-157%
X- NET RESULT FOR THE YEAR	-12 214	-13 481	-9%
Shares of the companies put into equivalence in the net results	3 425	2 760	24%
XI- NET RESULT OF THE CONSOLIDATED GROUP	-8789	-10721	-18%

Table 03 : Consolidated balancesheet as at 31/12/2012
In Million DZD

ASSETS	NET AMOUNTS			LIABILITIES	NET AMOUNTS		
	2012	2011	GROWTH		2012	2011	GROWTH
FIXED (NON CURRENT) ASSETS				EQUITY CAPITAL			
Purchase adjustment (goodwill)	0	0		Issued capital or operating account	150 000	150 000	0%
Intangible assets	550	560	-2%	Shareholding Equity strengthening	206 801	206 251	0%
Tangible assets	1 079 184	848 307	27%	Uncalled capital	2 171	6 875	-68%
Lands	3 888	3 804	2%	Premiums and reserves (consolidated)	148 961	145 262	3%
Lands layout	14 057	13 034	8%	Revaluation adjustment	30 553	30 345	1%
Constructions (Buildings & infrastructure works)	77 111	67 791	14%	Equivalence adjustment	10 291	4 210	144%
Technical installations, Equipment and industrial machinery	902 962	653 936	38%	Net result (Group's share)	-8 789	-10 721	-18%
Other fixed assets	81 166	109 741	-26%	Other capital equity-To be carried forward	20 862	32 096	-35%
Fixed assets in ptoress	712 770	747 875	-5%	Share of the consolidating company	499 080	501 739	-1%
Financial fixed assets	103 995	89 632	16%	Minority interest	61 770	62 580	-1%
Investment securities-stakeholdings	24 191	17 618	37%	TOTAL CAPITAL EQUITY	560 850	564 319	-1%
Other investments and related receivables	0	0		II- NON CURRENT LIABILITIES			
Other fixed securities	2 475	2 773	-11%	Borrowings and financial debts	915 791	711 322	29%
Loans and other noncurrent financial assets	924	319	190%	Taxes (deferred and credited accounts)	16 157	14 811	9%
Deferred tax assets	8 395	7 628	10%	Other non-current debts	2 171	7 020	-69%
Other non-current assets	68 011	61 294	11%	Provisions and products assessed In advance	515 960	466 561	11%
TOTAL FIXED ASSETS	1 896 499	1 686 374	12%	TOTAL NON-CURRENT LIABILITIES	1 450 079	1 199 714	21%
CURRENT ASSETS				III- CURRENT LIABILITIES			
Stocks and stocks in process	48 257	32 782	47%	Suppliers and related accounts	147 146	122 249	20%
Receivables and equivalent assets	288 673	259 517	11%	Taxes	9 175	15 404	-40%
Customers	109 412	98 389	11%	Other debts	75 155	66 575	13%
Other debtors	152 264	136 233	12%	Liabilities cash	79 118	81 820	-3%
Taxes	26 998	24 834	9%				
Other current assets	0	61	-100%				
Cash and Cash equivalents	88 095	71 407	23%				
Investments and current financial assets	1 658	6 624	-75%				
Cash	86 437	64 783	33%				
TOTAL CURRENT ASSETS	425 025	363 706	17%	TOTAL CURRENT LIABILITIES	310 594	286 048	9%
TOTAL ASSETS	2 321 524	2 050 080	13%	TOTAL LIABILITIES	2 321 524	2 050 080	13%

General Report of the Auditors

SONELGAZ Group

Algerian Company of Power and Gas

SONELGAZ S.a

02, Boulevard Krim Belkacem Alger Algérie

Subject: General Report of the auditors of SONELGAZ Group for the year ended December 31, 2012

Mr. President,

Members of the General Assembly,

In compliance with the statutory audit mission that was entrusted to us by your Annual General Meeting - AGM – July 04th, 2012, we are pleased to advise you of the results of the works we have carried out in respect of 2012 and which include:

- The control of the consolidated annual accounts of SONELGAZ Group from 1st January 2012 31st December 2012.
- The specific audit and information required by law.

I- RECALL OF THE MISSION

The financial statements subject to our review are adopted in accordance with the Commerce law and the article 132-3 of the Law No. 07-11 dated 25 November 2007 related to the Financial and accounting System (SCF) by the Board of Directors of the shareholding company Algerian company of electricity and gas (Sonelgaz Spa) (holding) during the meeting held on 30 May 2013 and under the responsibility of the latter with a net total balance sheet (Assets/ Liabilities) amounting to 2 321 524 352 394.34 DZD and a deficit result of 8 788 837 908.61 DA .

Our responsibility is to express, based on the audit work performed, an opinion on the financial statements subject to our review, namely the balance sheet, the income statement and other synthesis tables, as appended to this report.

For the purpose of our work, we have prepared the following documents:

- Consolidated financial statements for the year ended 31 December 2012 including the balance sheet (assets and liabilities), the income statement, the statement of cash flows, statement of changes in equity and Annex;
- Bundles of consolidation as at 31 December 2012;
- General Balance of consolidated accounts as at 31 December 2012;
- Account book of the reprocessing for the year 2012;
- Reports of expression of opinion and special reports on the fiscal year 2012 of the auditors of consolidated subsidiaries and associates, as well as the attached financial statements;
- Consolidated management report of the Board for the year 2012.

The audits from the examination of documents that have been submitted, consisted

essentially in ensuring compliance with the general rules on consolidated accounts including consolidation , the elimination of individual accounts data (receivables , payables products - expenses) and in the consolidation methods .

II- OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Given professional procedures that we performed, according to the control standards generally accepted and subject to the reservations and observations and those contained in the reports of the auditors of the consolidated entities , we believe that , in our opinion , the consolidated financial statements of Sonelgaz Group , as appended to this report with a net total assets (assets - liabilities) of two thousand three hundred twenty-one billion five hundred twenty-four million three hundred fifty two thousand three hundred ninety-four dinars and thirty four centimes (2 321 524 352 394.34 DZD) and a deficit result of eight billion seven hundred eighty eight million eight hundred thirty seven thousand nine hundred and eight dinars and sixty-one centimes (8 788 837 908.61 DZD) are regular and sincere and give on the whole fair results of operations for the year, as well as the financial situation of your group at the end of the year 2012.

III- SPECIFIC PROCEDURES AND INFORMATION

We examined the activity report submitted by your Board of Directors for 2012; it does not raise from our part any significant observation to make on the concordance of the information provided with the consolidated annual accounts submitted for your approval.

Done at Algiers, 18 July 2013

Stamps and signatures:

BALI Azzouz
Chartered Accountant
Cit  Ennadjah n  21 D ly Ibrahim Alger

Cherif Mohamed Sherif
Chartered accountant
06 , Rue Ali Bouras ALGER

GLOSSARY: (French/English)

- ABB: Asea Brown Boveri, spa (ABB Algérie).
- AEC: Algerian Energy Company.
- AETC: Algerian Energy Telecom Company.
- GA: General Assembly.
- OGA: General Ordinary Assembly.
- ALGESCO: Algerian Engineering Service Company.
- AMC : Entreprise Nationale des Appareils de Mesure et de Contrôle.(National company of measuring and control devices)
- AOM: Algerian Operating & Maintenance Company.
- ARMEL : Ateliers de Réparation de Matériels Electriques.(electric material Repair workshop)
- PL : Programme License.
- BAD : Banque Algérienne de Développement.
- BAOSEM : Bulletin des Appels d’Offres du Secteur de l’Energie et des Mines. (Energy and mine tender bulletin)
- BNA: Banque Nationale d’Algérie.
- LV: Low voltage
- LP: Low Pressure.
- TO: Turnover (Chiffre d’Affaires).
- BD: Board of Directors.
- CAE : Comité Algérien de l’Energie (Algerian Energy committee).
- CAMEG : Comptoir Algérien du Matériel Electrique et Gazier. (Algerian Electrical and Gas Equipment Counter)
- CBA: Centre de Ben-Aknoun. (Training center of Ben Aknoun)
- CC: Combined Cycle.
- CDER : Centre de Développement des Energies Renouvelables. (Renewable Energy development center)
- CDR : est un relais de gérance de disjoncteur électrique.(relay for managing power breaker)
- CEEG : Compagnie d’Engineering de l’Electricité et du Gaz. (Power and gas engineering company)
- CEGELEC : Consortium algéro-français. Algerian-French consortium)

- CME : Conseil Mondial de l'Énergie. (World energy council)
- CMT : Centre de Médecine du Travail. (Occupational medicine center)
- CPA : Crédit Populaire d'Algérie.
- CREDEG : Centre de Recherche et de Développement de l'Électricité et du Gaz. (Center of power and gas Research and development)
- CREG: Commission de Régulation de l'Électricité et du Gaz. (Regulatory committee of power and gas)
- CSP : Concentrateurs Solaires de Puissance. (Concentrating Solar Power)
- CUMP: Coût Unitaire Moyen Pondéré.(Average weighted unit cost)
- DAI : Direction de l'Audit Interne. (Internal audit management)
- DII : Desertec Industrial Initiative.
- DP : Distribution Publique. Public distribution
- EGA : Électricité et Gaz d'Algérie.
- ELIT : El-Djazair Information Technology.
- END : Énergie Non Distribuée. (Non distributed Energy)
- EnR : Énergies Nouvelles et Renouvelables. (New and renewable energies)
- EPC: Engineering Procurement and Construction.
- EPIC : Etablissement Public à Caractère Industriel et Commercial.
(Industrial and commercial public company)
- ER : Electrification Rurale. (Rural electrification)
- Filiale : Société dont plus de la moitié du capital social est détenu par une autre société dite «Société Mère». (Subsidiary: Whose capital is in majority held by the parent company)
- FNI : Fonds National d'Investissement. (National Investment Fund)
- FO : Fibre Optique. (Optical fiber)
- GNL: Gaz Naturel Liquéfié.(Liquefied Natural gas)
- GRTE : Société Algérienne de Gestion du Réseau de Transport de l'Électricité. (Algerian company of power transmission network management)
a g o u v e r n a n c e d u g r o u p e
- GRTG : Société Algérienne de Gestion du Réseau de Transport du Gaz. (Algerian company of gas transport network management)
- GSM-Data/GPRS : Transfert de données via un téléphone GSM. (Gsm data transfer)
- Ha : Hectare.
- Holding : Société financière dont l'objet consiste à prendre et à détenir des participations dans d'autres entreprises en vue d'en contrôler l'activité =

(A Financial company which hold stocks of other companies to control there activities)

- HMP : Hôtel Mas des Planteurs.
- HP: High Pressure.
- HT: Haute Tension. (High voltage)
- Hyd : Hydraulique.
- IACT : Interrupteurs Aériens à Creux de Tension. (Voltage hollow aerial switch)
- IE: Incidents Exceptionnels. (Deadly incidents)
- IPP: Indépendant Power Projet.
- KV: Kilovolts. MW, GW: Kilo, Méga et Gigawatt (respective power units of 10^3 , 10^6 et 10^9 watts).
- KWh, MWh, GWh, TWh : Kilo, Méga, Giga et Térawatt heure (energy units – respectively 10^3 , 10^6 , 10^9 et 10^{12} wattheure).
- KWc: abréviation of kilowatt-crête (peak value kilowatt) used to shape photovoltaic materials.
- Med-TSO: Mediterranean Transmission System Operators.
- MEI : Société de Maintenance des Equipements Industriels. (Industrial Equipment maintenance company)
- MEM : Ministère de l’Energie et des Mines. (Ministry of energy and mines)
- MM : Maison Mère. (Parent company)
- MP : Moyenne Pression. (Medium Pressure)
- MT : Moyenne Tension. (Medium Voltage)
- MVA : Méga Volt Ampère.
- MVAR : Mega Volt Ampere Reactive.
- ONE : Office National de l’Electricité du Maroc.
- OS : Opérateur du Système Electrique. (Power system operator)
- PC: Programme Complémentaire. (complementary program)
- PMA : Puissance Maximale Appelée. (Maximum called power)
- PNG: Programme National Gaz. (Gas national programme)
- QLS : Quartiers et Lotissements Sociaux. (Social districts and housing estate)
- RCN : Raccordement Clientèle Nouvelle. (New customer connexion)
- RIN : Réseau Interconnecté National. (National Interconnected Network)
- RIS : Réseaux Isolés du Sud. (South Isolated networks)
- SAFIR : Société Algéro-Française d’Ingénierie et de Réalisation.

- SD : Société de Distribution. (Distribution Company)
- SDA : Société de Distribution de l'Electricité et du Gaz d'Alger. (DC Algiers)
- SDC : Société de Distribution de l'Electricité et du Gaz du Centre. (DC Central region)
- SDE : Société de Distribution de l'Electricité et du Gaz de l'Est. (DC Eastern region)
- SDH : Système de Haut Débit. (High debit system)
- SDO : Société de Distribution de l'Electricité et du Gaz de l'Ouest. DC western region)
- SIE : Sûreté Interne des Etablissements. (Internal security of the establishments)
- SKB : Société de Production d'Electricité (Shariket Kahraba Berrouaghia) Power generation company.
- SKD : Société de Production d'Electricité (Shariket Kahraba Koudiet Eddraouch).=(Power generation company).
- SKH: Société de Production d'Electricité(Shariket Kahraba Hadjret Ennouss). Power Generation Company.
- SKS : Société de Production d'Electricité (Shariket Kahraba Skikda). Power Generation Company.
- SKT: Société de Production d'Electricité(Shariket Kahraba Terga). Power Generation Company.
- SKTM: Shariket Kahraba Oua Takat Moutadjadida. (Power and renewable energy company)
- SPAS : Société de Prévention et d'Action en Sécurité. (Prevention and security company)
- SPE : Société Algérienne de Production de l'Electricité. (Power generation Algerian company)
- SPP 1: Solar Power Plant one.
- STEG : Société Tunisienne de l'Electricité et du Gaz. (The Tunisian Company of Electricity and Gas)
- TEC : Taux Equivalent Coupure. (Cut rate)
- TEIAS : Turkish Electricity Transmission Company, est une entreprise turc de transport d'électricité
- TG: Turbines Gaz. (Gas turbine)
- TH: Thermie.
- THT : Très Haute Tension. (Very high voltage)
- TIM : Temps d'Interruption Moyen. (Average cut time)
- TPR : Travaux et Prestations Remboursables. (Refundable works and services) L a g o u v e r n a n c e d u g r o u p e
- TERNA : Rete Elettrica Nazionale, est une entreprise Italienne de transport d'électricité.(Italian company for power transmission)
- TV: Turbines Vapeur. (Steam turbine)
- TVA : Taxe sur la Valeur Ajoutée. Value added tax
- UDTS : Unité de développement des techniques en silicium. (Silicium techniques development unit)

- USTHB : Université des Sciences et de la Technologie Houari Boumediene. (Houari Boumedienne University of technology and sciences)

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