

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

**ANNUAL REPORT ISSUED BY THE DIRECTORS OF  
SNTGN “TRANSGAZ” SA**

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**INDIVIDUAL FINANCIAL STATEMENTS**

**(AUDITED FINANCIAL STATEMENTS)**

**\*2010\***

**TABLE OF CONTENTS**

REPORT AND ISSUER IDENTIFICATION DATA .....	3
GENERAL INFORMATION REGARDING THE ISSUER.....	3
Chapter 1 - ANALYSIS OF THE COMPANY'S ACTIVITY .....	6
1.1.a). Basic activities .....	6
1.1.b). Transgaz set-up date.....	6
1.1.c). Important Transgaz mergers or reorganisations occurred during the financial year. ....	7
1.1.d). Acquisition and alienation of assets .....	7
1.1.e). Evaluation of the company's activity .....	7
1.1.1. General evaluation aspects.....	7
1.1.2. Evaluation of the Transgaz technical level .....	12
1.1.3. Evaluation of the purchasing activity .....	14
1.1.4. Evaluation of the sales activity.....	14
1.1.5. Evaluation of company employees/staff aspects .....	14
1.1.6. Evaluation of aspects related to the environmental impact of Transgaz main activity.....	16
1.1.7. An outlook on the international activity of Transgaz .....	20
Chapter 2. TRANSGAZ TANGIBLE ASSETS .....	23
2.1 Location and characteristics of the main production facilities of Transgaz.....	23
2.2 Description and analysis of the property wear degree.....	24
2.2.1. Description and analysis .....	24
2.2.2. Performance of the repair, rehabilitation and maintenance programme .....	25
2.2.3. The investment programme .....	27
2.2.4. Accessing community funding.....	29
Chapter 3. THE MARKET OF SECURITIES ISSUED BY TRANSGAZ .....	30
3.1. Characteristics and evolution of securities issued by Transgaz on the regulated market managed by the Bucharest Stock Exchange .....	30
3.2. Description of the Transgaz dividend policy .....	33
3.3. The intent of Transgaz of purchasing own shares .....	33
3.4. The number and nominal value of shares issued by the mother company and owned by subsidiaries .....	33
3.5. Obligatiuni si/sau alte titluri de creanta .....	33
Chapter 4 COMPANY MANAGEMENT.....	34
4.1. Presentation of directors .....	34
4.2. The members of the executive management.....	36
Chapter 5. CORPORATE GOVERNANCE .....	39
Chapter 6 FINANCIAL-ACCOUNTING STATEMENT .....	44
6.1. Comparative analysis of the economic-financial statements for the last 3 year.....	44
6.1.1. Balance sheets items .....	44
6.1.2. Profit and loss account.....	46
6.1.3. Cash-flow.....	50
6.2. Management of financial risk .....	51
Chapter 7. MISCELLANEOUS .....	51

**REPORT AND ISSUER IDENTIFICATION DATA**

Annual report according to the provisions of art. 227, Law no. 297/2004

For the financial year concluded on: 31 decembrie 2010

Report date: 18<sup>th</sup> March 2011

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

Head office: Medias, P-ta Constantin I. Motas, nr.1, postal code: 551130

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

VAT Number: RO13068733

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

Subscribed and paid up share capital: 117.738.440 lei

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

Main characteristics of securities issued by Transgaz: 1.177.384 ordinary, registered, indivisible, freely tradable shares since 24<sup>th</sup> January 2008, having a nominal value of 10 lei/share.

**GENERAL INFORMATION REGARDING THE ISSUER**

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

- Transgaz head office: the city of Medias, str. Piata C.I. Motas nr. 1, Sibiu county, postal code 551130;
- Exploitation Department: the city of Medias, str. George Enescu nr. 11, Sibiu county, postal code 551018;
- Research, Engineering and Regulations Department: the city of Medias, str. Unirii nr. 6, Sibiu county, postal code 550173;
- Bucharest Balancing Dispatching Centre: the city of Bucharest, Calea Dorobanti nr. 30, District 1, postal code 010573

Transgaz owns 10 regional operating centres without legal personality:

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

6. Cluj Regional Operating Centre, str. Crisului nr. 12, Cluj-Napoca city, Cluj county, postal code 400597;
7. Craiova Regional Operating Centre, str. Arhitect Ioan Mincu nr. 35, Craiova city, Dolj county, postal code 200011;
8. Medias Regional Operating Centre, str. George Cosbuc nr. 29, Medias city, Sibiu county, postal code 551027;
9. Constanta Regional Operating Centre, str. Caraiman nr. 2 bis, Constanta city, Constanta county, postal code 900117;
10. Constanta Transit Regional Operating Centre, str. Caraiman nr. 2 bis, Constanta city, Constanta county, postal code 900117.

The **Mission** of Transgaz is represented by the profitable, transparent, safe and competitive implementation of the national energy strategy established for the transport, international transit, dispatch of natural gas and the development of research and projects for natural gas transport.

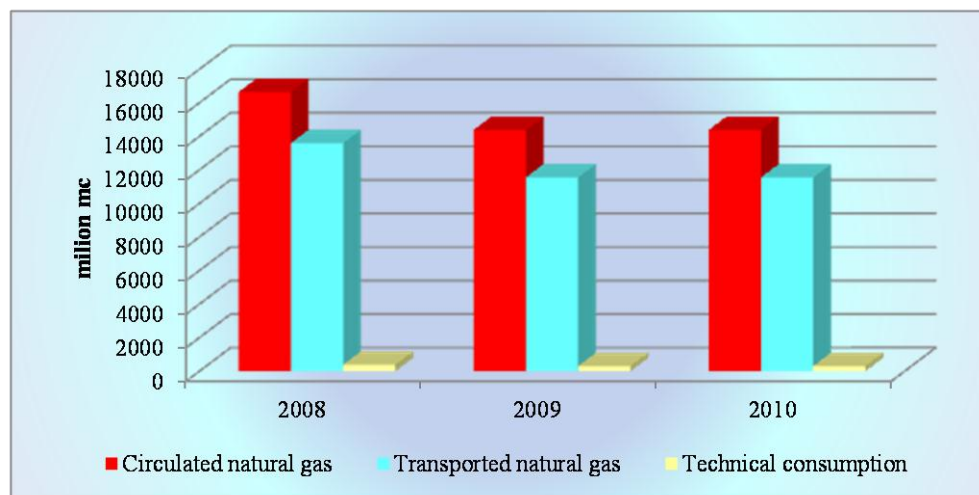
## EXECUTIVE SUMMARY

### Transgaz performance indicators

No.	Indicator	UM	2008	2009	2010	% variation 2009/2008	% variation 2010/2009
0	1	2	3	4	5	6=4/3*100	7=5/4*100
1	Turnover	mil. lei	1.119,39	1.187,35	1.312,99	106,07	110,58
2	Operating revenue	mil. lei	1.138,32	1.220,02	1.342,93	107,18	110,07
3	Operating expenditures	mil. lei	857,37	874,87	899,27	102,04	102,79
4	Gross operating profit	mil. lei	280,94	345,15	443,66	122,85	128,54
5	Gross financial profit	mil. lei	4,20	16,13	7,84	384,19	48,60
6	Profit tax	mil. lei	46,14	62,65	75,15	135,80	119,95
7	Net profit	mil. lei	239,01	298,63	376,35	124,95	126,03
8	Gross dividend/share	lei	10,47	13,02	28,77*	124,36	220,97

\* proposal submitted to the approval of the General Shareholders' Meeting

The evolution of the natural gas quantities circulated and transported through the National Natural Gas Transmission System (NTS), as well as of the technological consumption between 2008-2010 is the following:



No.	Indicator	UM	2008	2009	2010
1	Circulated natural gas	mil. mc	16.641,22	14.381,03	14.735,00
2	Transported natural gas	mil. mc	13.592,55	11.548,83	12.306,55
3	Technological consumption	mil. mc	379,76	301,721	283,77
4	Technological consumption/circulated gas ratio	%	2,28	2,10	1,93

The evolution of the performance indicators for the main services provided by the company on the natural gas market are presented in the following table:

No.	Specifications	Results			Dynamics (%)		
		2008	2009	2010			
0	1	2	3	4	5=3/2*100	6=4/3*100	7=4/2*100
1.	<b>Income from the transport activity</b>						
	- lei	916.527.391	939.194.107	1.054.013.720	102,47	112,22	115,00
	- thousand m <sup>3</sup>	13.592.552	11.548.833	12.306.552	84,96	106,56	90,54
	- lei/1000 m <sup>3</sup>	67,43	81,32	85,65	120,60	105,32	127,02
2.	<b>Income from the transit activity</b>						
	- lei	200.118.623	242.735.652	254.088.896	121,30	104,68	126,97
3.	<b>Other operating income</b>						
	- lei	21.672.088	38.085.045	34.830.755	175,73	91,46	160,72
*	<b>TOTAL OPERATING INCOME</b>	<b>1.138.318.102</b>	<b>1.220.014.804</b>	<b>1.342.933.371</b>	<b>107,18</b>	<b>110,08</b>	<b>117,98</b>

The increase of the income generated by the natural gas transport activity was determined by the annual adjustment of the regulated income, mainly as a result of implemented investments, the inflation trend and as well as to the increased transported quantity of natural gas by 757.719 thousand m<sup>3</sup>, compared to 2009.

The increase of income generated by the natural gas international transit was generated by the USD and EURO exchange rates trend, seeing that the transit services payments are collected in foreign currency.

## **Chapter 1 - ANALYSIS OF THE COMPANY'S ACTIVITY**

### **1.1.a). Basic activities**

Transgaz is a joint stock company, operating according to the provisions of the Romanian legislation and its Articles of Incorporation.

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

The main object of activity of Transgaz - NACE Code 4950 – "*Transport via pipelines*" – is defined by law as the circulation of natural gas through the National Natural Gas Transmission System or through other transport systems. In addition, Transgaz also carries out related/secondary activities supporting its main object of activity, according to the current legislation and the company's updated Articles of Incorporation (art. 7).

According to the regulatory framework applicable in the field of natural gas, Transgaz carries out the natural gas transport activity based on the specific field legislation and the Concession Agreement concluded with the National Agency for Mineral Resources and approved by Government Decision (GD) no. 668/2002, with further amendments and supplements, on the Natural Gas Transport Licence no. 40/17.01.2001, on the Natural Gas Transit Licence no. 41/17.01.2001 and the Natural Gas Transport Units/Systems Operating permit no. 829/20.09.2007 issued by National Regulatory Authority in the Field of Energy.

The natural gas transport activity is a public service of national interest and is included in the regulated segment of the internal natural gas market. The transport service has a natural monopoly status and is carried out based on a tariff regulated by ANRE. The contracts for carrying out the natural gas transport services are concluded for a period of 1 gas year, based on the Framework Contracts drawn up and approved by ANRE.

### **1.1.b). Transgaz set-up date**

Transgaz was set up in 2000, by the reorganisation of the former SNGN "Romgaz" SA, according to GD no. 334/28<sup>th</sup> April 2000, published in the Official Gazette of Romania, Part I, no. 194/4.05.2000.

Under GD no. 334/2000, SNGN "Romgaz" SA was restructured and reorganized by division. SNGN "Romgaz" SA was closed down and the main activities in the natural gas sector were separated and organized as separate activities.

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

In addition, as operator of the National Natural Gas Transmission System, Transgaz has the obligation, according to the provisions of Law no. 346/2007, to ensure the interconnection with similar natural gas transport systems from neighbouring countries, creating the technical and technological conditions necessary for ensuring the safety of the natural gas supply.

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

No mergers or reorganisations took place in 2010.

#### **1.1.d). Acquisition and alienation of assets**

Except for assets used according to the purchase programme designed for the development of the national transport system, as well as assets taken out of service under the law, the company recorded no other similar operations in 2010.

#### **1.1.e). Evaluation of the company's activity**

The internal public audit activity was set up at the level of Transgaz at the end of 2007, by the creation of the Internal Audit Office. The first Internal Audit Plan was implemented in 2008. Since then, annual audit plans have been developed for each financial year. Besides the annual plans, the internal audit structure draws up dynamic strategic plans for periods of 3 calendar years, based on the risk analysis of the entity's activities, carried out at the end of each calendar year.

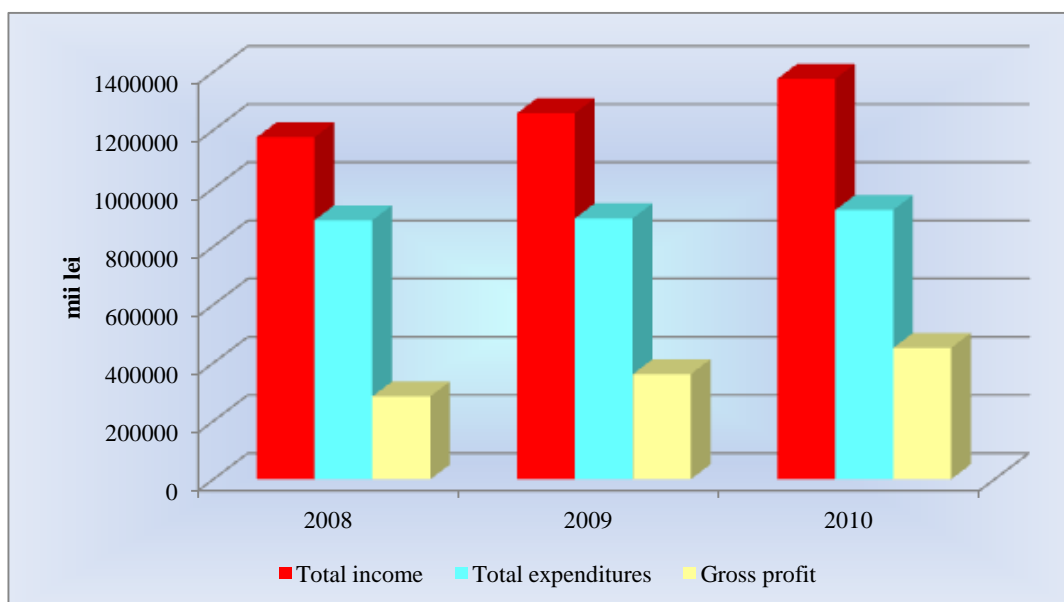
The audit of the 2010 financial statements was performed by the "PriceWaterhouse Coopers" (PWC) auditors and was completed on 18<sup>th</sup> March 2011.

##### **1.1.1. General evaluation aspects**

The 2008-2010 financial-economic activity of Transgaz was carried out based on the annual income and expenditure budgets indicators, approved by government decisions.

The main economic-financial indicators attained between 2008 - 2010 are presented in the table below:

No.	Indicator	UM	2008	2009	2010
0	1	2	3	4	5
1	Turnover	lei	1.119.389.990	1.187.350.293	1.312.997.932
2	Total income	lei	1.175.886.218	1.258.467.898	1.377.109.896
3	Total expenditures	lei	890.743.584	897.186.393	925.605.375
4	Gross profit	lei	285.142.634	361.281.505	451.504.521



### 2010 results versus 2009 results

The situation of the financial results reported on 31st December 2010 compared to the similar period of 2009 is presented in the table below:

*\*mii lei\**

No.	Name	Results 2009	Results 2010	Rates (%)
0	1	2	3	4=3/2x100
1.	Income from the operating activity	1.220.015	1.342.934	110,08
2.	Financial income	38.453	34.176	88,88
3.	<b>TOTAL INCOME</b>	<b>1.258.468</b>	<b>1.377.110</b>	<b>109,43</b>
4.	Operating expenditures	874.867	899.269	102,79
5.	Financial expenditures	22.319	26.336	118,00
6.	<b>TOTAL EXPENDITURES</b>	<b>897.186</b>	<b>925.605</b>	<b>103,17</b>
7.	<b>GROSS RESULT</b> (row 3 - row 6) out of which:	<b>361.282</b>	<b>451.505</b>	<b>124,97</b>
	☛ from the operating activity	345.148	443.664	128,54
	☛ from the financial activity	16.134	7.840	48,59
8.	Profit tax	<b>62.650</b>	<b>75.152</b>	<b>119,95</b>
9.	<b>NET PROFIT</b>	<b>298.632</b>	<b>376.353</b>	<b>126,03</b>

*The total income* represents **109,43%** compared to the results of the similar period of 2009, an increase of **118.642 thousand lei**. The income was mainly influenced by:

- ☛ *the transported gas quantity*, higher with 8.175.522 MWh (757.719 mii m<sup>3</sup>) than the one in 2009, with a **58.254 thousand lei positive influence**;



- 👍 *the volumetric component* of the transport tariff (7,50 lei/MWh) higher than that of 2009 (7,13 lei/MWh) with 0,37 lei, which had a positive influence on the income of **49.073 thousand lei**;
- 👍 *the capacity reservation component* of the transport tariff (0,21 lei/MWh and hour) higher than the one at 31<sup>st</sup> December 2009 (0,19 lei/MWh and hour oră) with 0,02 lei, which had a positive influence on the income of **8.146 thousand lei**;
- 👍 *the income from the international transit of natural gas services* recorded an increase of **11.353 thousand lei** due to the increase of the average exchange rate compared to the exchange rate of the previous year.

**The total expenditure is 103,17%** compared to the same period of 2009, an increase of **28.419 thousand lei**.

**The incurred operating expenditures** reached the level of 102,79%.

*The planned expenditure amounts were exceeded by 77.269 thousand lei, including the following expenditure items:*

- 👍 works and services provided by third parties: 23.647 thousand lei
- 👍 personnel expenditures: 18.228 thousand lei;
- 👍 depreciation of fixed assets: 12.206 thousand lei following the their commissioning in 2010;
- 👍 the royalty for the concession of the national transport system: 12.617 thousand lei.

*Savings in the amount of 52.867 thousand lei were reported, compared to 2009, mainly for the following expenditure items:*

- 👍 the natural gas consumption and technological losses in the transport system: 14.704 thousand lei due to the lower quantity of natural gas representing consumption and technological losses with 323.381 MWh (approx.17.946 thousand m<sup>3</sup>) compared to the previous year;
- 👍 other operational expenditures: 34.351 thousand lei, mainly due to the annulment of the certain provisions due the collection of overdue debts from the previous periods.

In comparison with the results reported in 2009, the total revenue increased with 9,43% and, although there was a reported 3,17% increase, **the gross profit in 2010 was with 24,97% higher, and the net profit with with 26.03% higher.**

### **2010 results versus 2010 planned results**

The synthesis of the financial results obtained on 31<sup>st</sup> December 2010 compared to the income and expenditure budget approved by GD no. 1364 of 23rd December 2010 is presented in the table below:

\*mii lei\*

No.	Name	IEB 2010	Results 2010	Rates (%)
0	1	2	3	4=3/2x100
1.	Income from the operating activity	1.406.863	1.342.934	95,46
2.	Financial income	2.771	34.176	1233,35
<b>3.</b>	<b>TOTAL INCOME</b>	<b>1.409.634</b>	<b>1.377.110</b>	<b>97,69</b>
4.	Operating expenditures	1.034.287	899.269	86,95
5.	Financial expenditures	11.080	26.336	237,69
<b>6.</b>	<b>TOTAL EXPENDITURES</b>	<b>1.045.367</b>	<b>925.605</b>	<b>88,54</b>
<b>7.</b>	<b>GROSS RESULT</b> (row 3 - row 6) out of which:	<b>364.267</b>	<b>451.505</b>	<b>123,95</b>
	☛ from the operating activity	372.576	443.665	119,08
	☛ from the financial activity	-8.309	7.840	X
<b>8.</b>	<b>Profit tax</b>	<b>56.718</b>	<b>75.152</b>	<b>132,50</b>
<b>9.</b>	<b>NET PROFIT</b>	<b>307.549</b>	<b>376.353</b>	<b>122,37</b>

*The total income* represents **97,69%** compared to the IEB planned results, there being a shortfall of **32.524 thousand lei**. The income was influenced by the following factors:

- The gas transport services recorded a **84.919 thousand lei**, caused by:
  - The volumetric component* of the transport tariff in 2010 7,50 lei/MWh lower than BVC 7,90 lei/MWh with 0,40 lei/MWh, having a **51.963 thousand lei** negative influence on the income;
  - the transported gas quantity* was lower than the planned one with 3.482.733 MWh (approx. 288.748 thousand m<sup>3</sup>), having a **27.502 thousand lei** negative influence.
- The income generated by natural gas international transit services reported a **12.467 thousand lei** increase due to the influence of the actual average exchange rate compared to the exchange rate considered for the IEB drafting;
- The financial income recorded a favourable increase of **31.405 thousand lei** compared to the IEB (income from interest and foreign exchange gains).

*The total expenditure* incurred at the end of the year is **88,54%** compared to the planned results, i.e. **119.762 thousand lei** lower.

*The operating expenditures* represent 86,95% of the planned level.

*Savings in the amount of 144.842 thousand lei* were reported for the following expenditure items:

- ☛ 42.239 thousand lei natural gas consumption and technological losses in the transport system, resulted from two factors:
  - ☛ the natural gas quantity resulted for was 7693.834 MWh (48.925 mii m<sup>3</sup>), lower than the planned level, with a 33.998 thousand lei positive influence;

- ☺ the actual average purchase price (46,16 lei/MWh) lower than the forecasted price (49,00 lei/MWh) with 2,84 lei/MWh, with a positive influence of 8.241 thousand lei;
- ☺ third party works and services: 39.690 thousand lei , due to the delay of several works for adverse weather conditions or due the difficult granting of the land owners approval to pass on their land area. Such works shall be performed in 2011;
- ☺ the royalty for the concession of the national transport system: 7.245 thousand lei;
- ☺ depreciation of fixed assets: 6.383 thousand lei;
- ☺ other operating expenditures: 39.201 thousand lei (sponsorsip expenditures, contributions related to the gas quota, annulment of the certain provisions due the collection of overdue debts from the previous periods).

**The gross profit** reported at the end of the year is **23,95%** higher than the planned profit, and the **net profit** with **22,37%** namely **68.804 thousand lei** higher than the planned profit.

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

No.	Indicatori	Calculation formula	2008	2009	2010
1.	<b>Profitability indicators</b>				
	a) EBITDA for total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	34,72%	42,24%	45,10%
	b) EBITDA for equity	$\frac{\text{EBITDA}}{\text{Equity}}$	17,76%	21,22%	22,90%
	c) Gross profit ratio	$\frac{\text{Gross profit}}{\text{Turnover}}$	25,47%	30,43%	34,39%
	d) Return on equity	$\frac{\text{Net profit}}{\text{Equity}}$	10,92%	12,64%	14,55%
2.	<b>Liquidity indicators</b>				
	a) Current liquidity indicator	$\frac{\text{Current assets}}{\text{Short-term debts}}$	1,72	1,42	1,57
	b) Quick liquidity indicator	$\frac{\text{Current assets} - \text{Inventories}}{\text{Short-term debts}}$	1,60	1,31	1,49
3.	<b>Risk indicators</b>				
	a) Degree of indebtedness indicator	$\frac{\text{Borrowed capital}}{\text{Equity}}$	4,53	1,76	3,04
	b) Times interest earned	$\frac{\text{EBIT}}{\text{Interest expenditures}}$	18,19	29,57	83,66
4.	<b>Activity indicators</b>				
	a) Debit turnover ratio - customers	$\frac{\text{Average customer balance} \times 365 \text{ days}}{\text{Turnover}}$	94,73	98,74	97,18
	b) Credit turnover ratio - suppliers	$\frac{\text{Average supplier balance} \times 365 \text{ days}}{\text{Turnover}}$	39,67	38,90	37,09

### 1.1.2. Evaluation of the Transgaz technical level

Transgaz obtains income from the following activities:

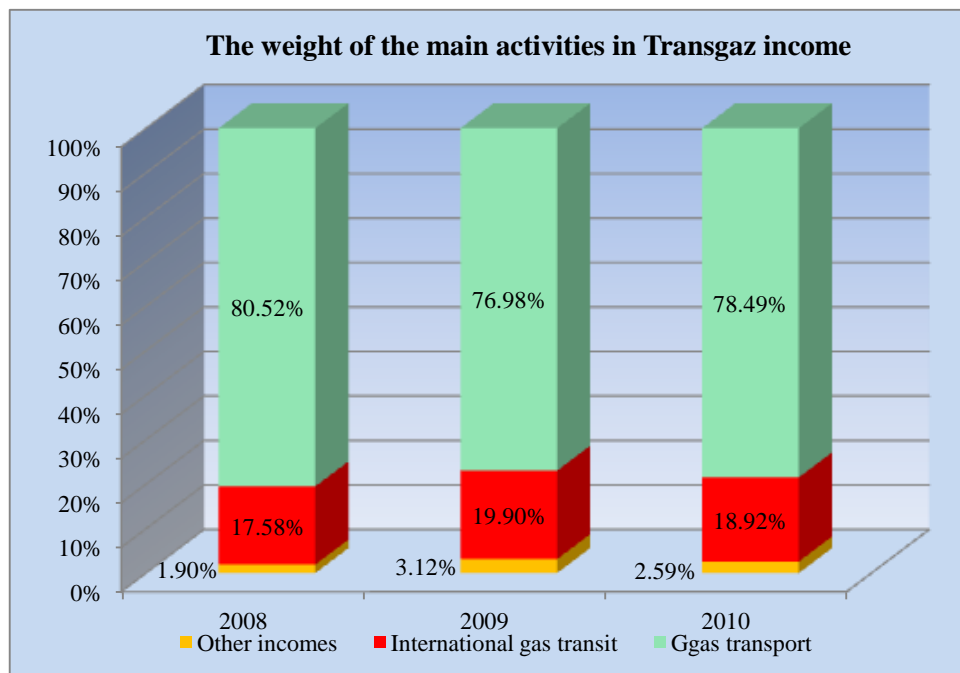
- **the natural gas transport activity** which, due to its monopoly status, is regulated by ANRE through *ANRGN (Regulatory Authority in the Field of Natural Gas) Decision no. 1078/2003 approving the criteria and methods for approving the prices and determining the regulated tariffs in the natural gas sector*. The evolution of the transport tariffs in the analysed period is presented in the table below:

No.	Order of the regulatory authority	In force since	Transport services tariff		
			Volumetric component (lei/1000 m <sup>3</sup> )	Volumetric component (lei/1000 m <sup>3</sup> )	Volumetric component (lei/1000 m <sup>3</sup> )
0	1	2	3	4	5
1.	ANRE Order 33/18.09.2007	1 <sup>st</sup> Oct. 2007	37,28	10,97	9,17
			(lei/MWh)	(lei/MWh/oră)	(lei/MWh/oră)
2.	ANRE Order 72/26.06.08	1 <sup>st</sup> July 2008	6,89	0,18	0,14
3.	ANRE Order 76/27.08.09	1 <sup>st</sup> Sept. 2008	7,50	0,22	0,17

According to ANRGN Decision no. 1078/2003 the regulated income should have been adjusted starting with 1<sup>st</sup> July 2010, but by the ANRE Order no. 18 dated 24<sup>th</sup> June 2010 the validity period of the ANRE Order no. 76 dated 27.08.2009 was extended "*until establishing the new regulated income*". We mention that, up the date of the report hereby, the adjustment of the regulated income was not established, including the tariffs of the related transport activity;

- **the natural gas international transit activity** is also a gas transport activity, but, since it is carried out through dedicated pipelines which are not interconnected with the national transmission system (NTS), *it is not a regulated activity, and the transit tariffs are determined according to commercial terms, by negotiations between the parties*;
- **other activities** having a minor contribution to the company's turnover (sale of assets, rents and royalties, investment subsidies).

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



### Natural gas transport services

The provision of the transport services is represented by activities and operations carried out in relation to the reservation of the transport capacity and the transport of natural gas through the NTS. The transport of the natural gas quantity is carried out from the commercial delivery/take over points at the entry point of the NTS, up to the commercial delivery/take over points at the exit point of the NTS. *The natural gas required to cover losses and technological consumption within the NTS is covered by Transgaz.* In 2010, the total gas quantity required to cover these losses and for own technological consumption was 2.906.419 MWh (283.775 thousand m<sup>3</sup>). The entire quantity was purchased from SNGN "Romgaz" SA.

The main responsibilities of Transgaz, as operator of the NTS are:

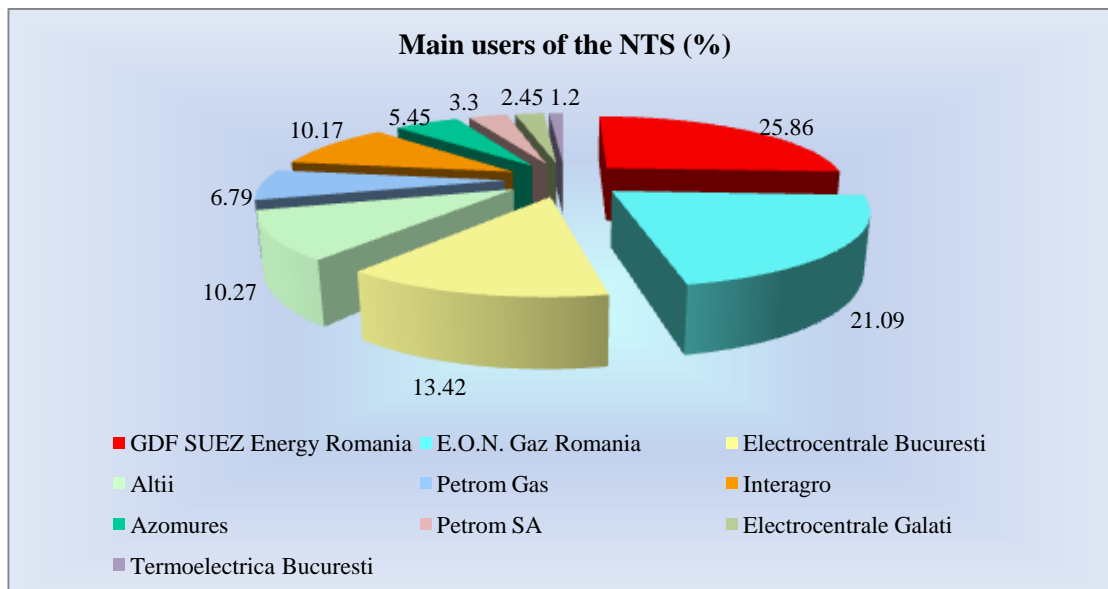
- *assuring the physical balance of NTS;*
- *maintenance, rehabilitation, modernisation and development of the NTS, by observing the applicable safety, efficiency and environmental protection requirements;*
- *ensuring third parties access to the NTS, in non-discriminatory conditions.*

The main categories of beneficiaries of the natural gas transport services provided by Transgaz through the NTS are:

- *licensed natural gas supply companies, mainly for the transport services in 2010 - 76,00%;*
- *eligible consumers, mainly for transport services in 2010 - 22,00%.*

- *licensed distribution companies and suppliers*, mainly for the transport services in 2010 - **2,00%**;

The weight of the main Transgaz customers (NTS users) in 2010 is presented in the following chart:



### 1.1.3. Evaluation of the purchasing activity

The main source of the purchases for the necessary technical-material basis is the internal market. The purchases are represented by materials required for the safe operation of the NTS, as follows: cocks, pipes, spare parts, fuel, other materials necessary for rapid intervention or unforeseen works.

Since the purchases are made under firm contracts, concluded according to the provisions of GEO no. 34/2006, the safety of the supply sources is provided for in the contractual clauses.

### 1.1.4. Evaluation of the sales activity

The NTS natural gas transport activity carried out by Transgaz involves over 89% of the natural gas consumed in Romania. Therefore, we can state that:

- there is no competition in the field;
- it does rely heavily on a single customer or a group of customers from the company's portfolio.

### 1.1.5. Evaluation of company employees/staff aspects

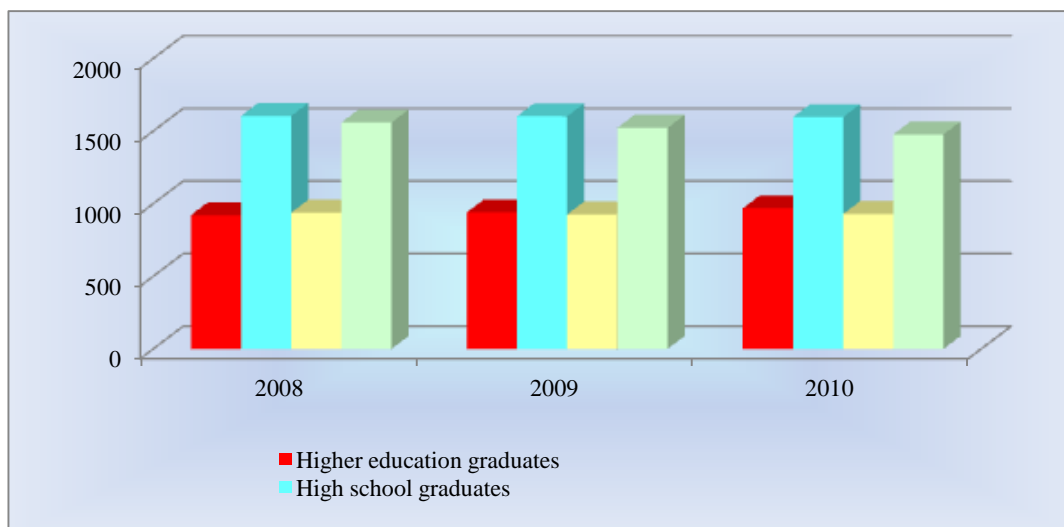
On 31<sup>st</sup> December 2010 Transgaz had 4.970 employees with an individual labour contract.

During 2008 - 2010 the number of company employees progressed as presented in the following table:

No.	Specification	2008	2009	2010
0	1	2	3	4
1	Number of employees at the beginning of the period	5.000	5.022	4.990
2	New employees	128	77	108
3	Employees who terminated their labour contract	106	109	128
4	Number of employees at the end of the period	5.022	4.990	4.970

The personnel evolution according to study categories, as presented in the table below, reflects the importance given to increasing the level of employees' professional training, as well as the company's interest in covering personnel needs by hiring highly-qualified specialists.

No.	Specification	31.12.2008	31.12.2009	31.12.2010
0	1	2	3	4
1	University graduates	921	940	968
2	High-school graduates	1.604	1.602	1.596
3	Vocational school graduates	938	926	929
4	Secondary school + qualification course graduates	1.559	1.522	1.477
*	<b>TOTAL employees</b>	<b>5.022</b>	<b>4.990</b>	<b>4.970</b>



As regards employee continuous training and specialisation in 2010 the company organised professional and specialisation training courses delivered by in-house trainers for 939 employees, for the following professions:

- pipeline transport and natural gas regulation operator;

- mechanical locksmith;
- electrician;
- welder etc.

In the same period 553 employees participated to courses organised by external trainers.

On 31<sup>st</sup> December 2010, 98,65 % of the labour force was part of a trade union, 4.903 employees out of 4.970 were trade union members. Transgaz employees are members of 4 trade unions:

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

The relations between the manager and the employees are regulated under the collective labour contract concluded at company level, as well as under the employees' individual labour contract.

The relation between the manager and the employees complies with the legal provisions in force. No associated conflicts were reported in 2010.

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

Due to the territorial distribution, the national transport system is permanently in contact and interconditioning with the environment, including the social-economic aspects. Under normal operating conditions, the NTS does not release pollutants in the atmosphere. Accidentally, some pollutant chemical substances may be released in case of improper sealing, wrong manoeuvres, faults, or during construction and maintenance works. Such pollutant substances contain reduced chemical substances which might generate a relative, non-lasting pollution.

Transgaz identifies environmental issues under normal operating conditions, for accidents and emergency situations. The effects with major environmental impact are determined for each of these cases. The significant impact environmental aspects have also been considered for the definition of the prevention and corrective measure, correlated with the environmental objectives and targets. All of these elements are included in the environmental management programmes.

##### **1.1.6.1. Main actions and measures for the improvement of environmental management and the prevention and/or limitation of environmental impact in 2010**



The following actions and measures were implemented in 2010 for the improvement of the activity in the field in question:

- monitoring the evolution of performance indicators;
- identification of EMS improvement opportunities;
- training personnel responsible for environmental issues, so that their professional knowledge, experience and competences allow them to work according to EMS requirements;
- ensuring that all company employees are familiar with and observe environmental regulations;
- monitoring emissions and discharges according to legal and regulatory requirements applicable for the company;
- identification of environmental aspects according to sites and activities;
- development of temporary storage areas;
- monitoring the consumption of water, electricity, methane gas, flues, dangerous substances and preparations;
- monitoring of produced waste;
- delivery of hazardous waste (used oil, and asbestos);
- replacement of asbestos-cement slabs;
- payment of the environmental fund contributions;
- management of environmental expenditures;
- conclusion of delivery contracts for waste generated at the level of the regional operating centres.

To attain the general and specific environmental objectives, annual environmental management programmes were developed at the level of the regional operating centres. These programmes were centralised at company level in the "Annual environmental management programme".

#### **1.1.6.2. Compliance with the provisions of the environmental management legislation**

According to the Order of the Ministry of Environment and Sustainable Environment no. 1798/2007 approving the "Procedure for the issue of the environmental authorisation", the pipeline transport activity, NACE code 4950, can only be performed based on an environmental authorization.

In addition, according to the Order of the Ministry of Water and Environmental Protection no. 860/2002 regarding the "Procedure for the evaluation of environmental impact and issue of the environmental permit", the issue of an environmental permit is required for the development of new units or modernization of existing ones by construction-mounting works which modify the unit's specifications or capacity.

In 2010, the company carried on with the procedure for obtaining the environmental authorisations for the pipelines and SRMs whose authorisation expired (due), objectives commissioned in 2010 or taken over by the company. The total number of

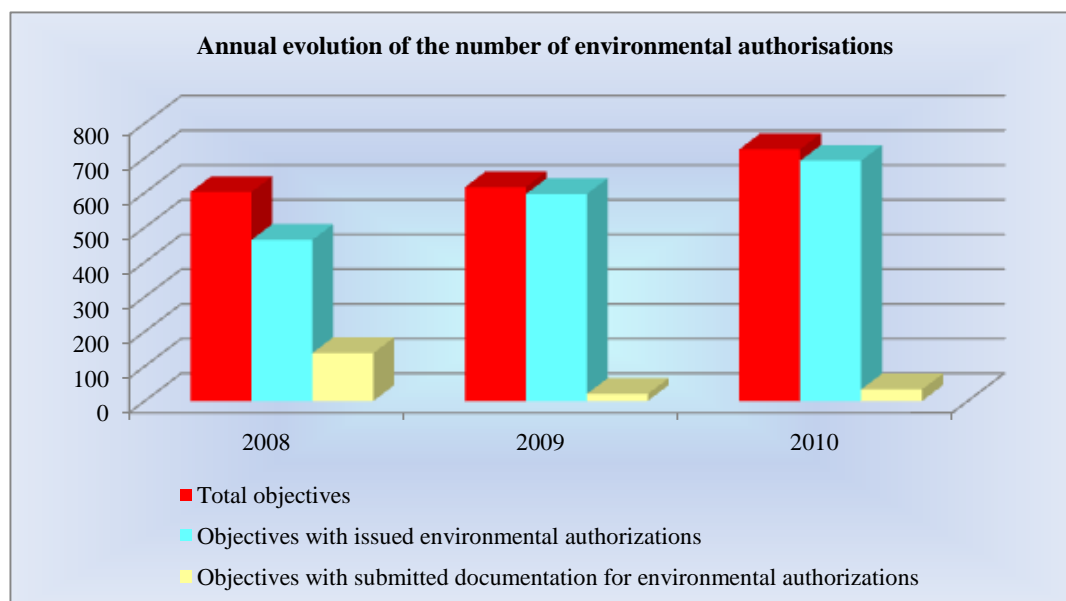
units requiring such authorisations was **725**; out of these, **692** already had issued authorisations, while the necessary (re)authorisation documentation for the other **33** had been submitted with the competent territorial and regional authorities, according to the due deadlines and methodology. The number of the authorized sites increased with 12.5 % compared to 2009, due to the objectives taken over by the company.

On the other hand, according to the Water Law no. 107/1996 with further amendments and supplements, and to Order no. 662/2006 of the Ministry of Environment and Water Management, TRANSGAZ works can only begin after obtaining the water management authorisations. Thus, TRANSGAZ holds 121 water management authorisations, for all river basins and water course crossings, except Călărași and Teleorman county.

All necessary documentations and studies required for obtaining the environmental and water management authorisations (permits) were carried out according legal requirements.

Consequently, there is a 100% conformity regarding the authorization procedure from an environmental perspective.

The dynamics of annual authorisations is represented in the chart below:



#### 1.1.6.3. Fines, accidents and litigations

16 inspections were carried out in 2010 by the National Environmental Guard and by the Water Management Companies. The result of these inspections was 1 fine amounting to 15.000 lei.

#### **1.1.6.4. Occupational safety and security aspects, prevention of emergency situations**

One of the main concerns of the company is to ensure, by specific prevention and protection activities, the best conditions possible for the work process, as well as the protection of the physical and psychical integrity of workers and other participants to the work process.

Therefore, in order to fulfil its responsibilities, the company drew up a set of programmes and measures plans aimed at:

- the prevention of occupational risks;
- informing and training of workers;
- ensuring the organisational framework and means necessary for occupational health and safety.

In order to reduce and eliminate occupational accidents and disease risks, in 2010 our company mainly organised activities aimed at the identification and assessment of occupational accidents and disease risks. Special attention was given to the prevention of explosion risks.

During 2010, the occupational health and safety activities were applied mainly for fulfilling the measures included in the "Protection and Prevention Plan".

In order to reduce and eliminate occupational accidents and disease risks, our company mainly organised specific activities aimed at implementing the planned measures. A special attention was given to the technical and administrative measures, as well as medical and healthcare measures.

Following the analysis of the fulfillment of the protection and prevention measures, we present the following:

#### **A. The organizational measures, conducted according to the plan, as follows:**

1. The medical examination of workers was provided as required by law, by companies specialized in occupational medicine.
2. According to legal provisions personal protective equipment were purchased and distributed to workers, ensuring the quantities required by local exploitation sites.
3. Our own training sessions on Occupational Health and Safety, conducted together with the National Research and Development Institute for Labour Protection (health and safety at work) – "Alexandru Darabont" from Bucharest were.

4. The activities of "*Identification and assessment of injury and occupational disease risks*" were continued at the worksites of the territorial exploitations by assessment teams created at company level. Consequently, based on these studies (outcome evaluations), the 2011 Protection and Prevention Plans were issued, for each territorial exploitation.
5. The NTS Maintenance Guidelines were supplemented with technical specifications regarding the inspection, maintenance and repair of electrical and mechanical equipments located in potentially explosive environments.
6. The security signaling was updated according the Government Decision no. 971/2006, for all regional exploitation sites.
7. Following the investment in S.R.M. Iasi-city, its modernization eliminated the noise factor which influenced the health of operators performing their activity in that station, as well as the health of people living in that area. Consequently, as of 1<sup>st</sup> January 2011 Transgaz does not have any more workplaces classified under special conditions.

## **B. Technical measures**

According to the seriousness of the risks involved and observing the *Transgaz Projects* regarding the modernization politics of NTS, technical measures were implemented in stages during the year, as provided in the Protection and Prevention Plan for workplaces.

## **C. Health safety measures**

In order to enforce the health safety measures, agreements were concluded on behalf of the company with companies supplying industry specific materials and providing industry specific services.

## **D. Other measures**

The occupational health and safety inspector of the Internal Protection and Prevention Department conducted subject training, guiding and control sessions, according to the Control Program drafted by the C-M.P.P. Directorate and approved by the General Manager.

### **1.1.7. An outlook on the international activity of Transgaz**

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

To this end, the following significant activities were carried out during 2010:

- Cooperation with the representatives of the European Commission for drafting the decisions to grant financial support for projects proposed for funding under the EEPR (European Recovery Program) program. These decisions were issued in the second half of 2010, representing the basis for granting non-refundable financial support for three projects undertaken by SNTGN Transgaz SA: the interconnection project of the Romanian and Hungarian transport systems (Szeged – Arad pipeline), the interconnection project of the Romanian and Bulgarian transport systems (Ruse-Giurgiu pipeline) and implementation of reversible flows at SMG (gas measurement station) Isaccea and SMG Negru Vodă, in order to improve Romania's and Bulgaria's natural gas supply safety.
- Continuation of the partnership with the Bulgarian gas transport operator, EAD Bulgartransgaz, aimed at the implementation of the interconnection of the natural gas transport systems of Romania and Bulgaria, on the Ruse-Giurgiu axis.
- Cooperation with Moldovagaz and the related ministry from Moldova, for the purpose of implementing the interconnection project for the natural gas transport system of the two countries by creating a pipeline on Bălți-Ungheni-Iasi axis. In 2010 the documentation was drafted, in order to obtain European funding under Romania – Ukraine – Moldova operational – sectorial program.
- Based on the third legislative package in the energy field, ENTSO-G (European Network of Transmission System Operators for Gas), which according to the legislation mentioned above, works to establish the 10 year development plan of the European transport network, as well as to establish the network codes for capacity, balance and tariff structure allocation. Following the internal approvals (Board of Directors and the General Shareholders Meeting), Transgaz became a member of this body in June 2010.
- Under ENTSO-G, during 201 our company was involved in the drafting of the 10 year development plan of the European transport network, as well as in the activity of the transparency group for the input of Transgaz data on the transparent platform of the organization.
- Continuation of the good cooperation with the companies involved in the Russian natural gas transit activity in the Balkan area. Under these terms, during the second half of 2010, the talks with OAO Gazprom and EAD Bulgargaz were initiated, for the purpose of settling the issues existing in the current agreements, which are not consistent with the community legislation. As a result, the European Commission launched the infringement procedure with respect to several EU countries, including Romania.

- Active participation throughout the year, alongside MECMA representative, to mixed, intergovernmental working groups, which are promoted by the Romanian Government in the energy field to several countries, such as Turkey, Bulgaria, Ukraine, Russian Federation, Serbia, etc.

Part of the aforementioned actions shall continue in 2010, and one of the main future objectives of Transgaz is to be an active participant in the activity of industry bodies and organisations, as well as intensify the cooperation with all stakeholders of the European energy market.

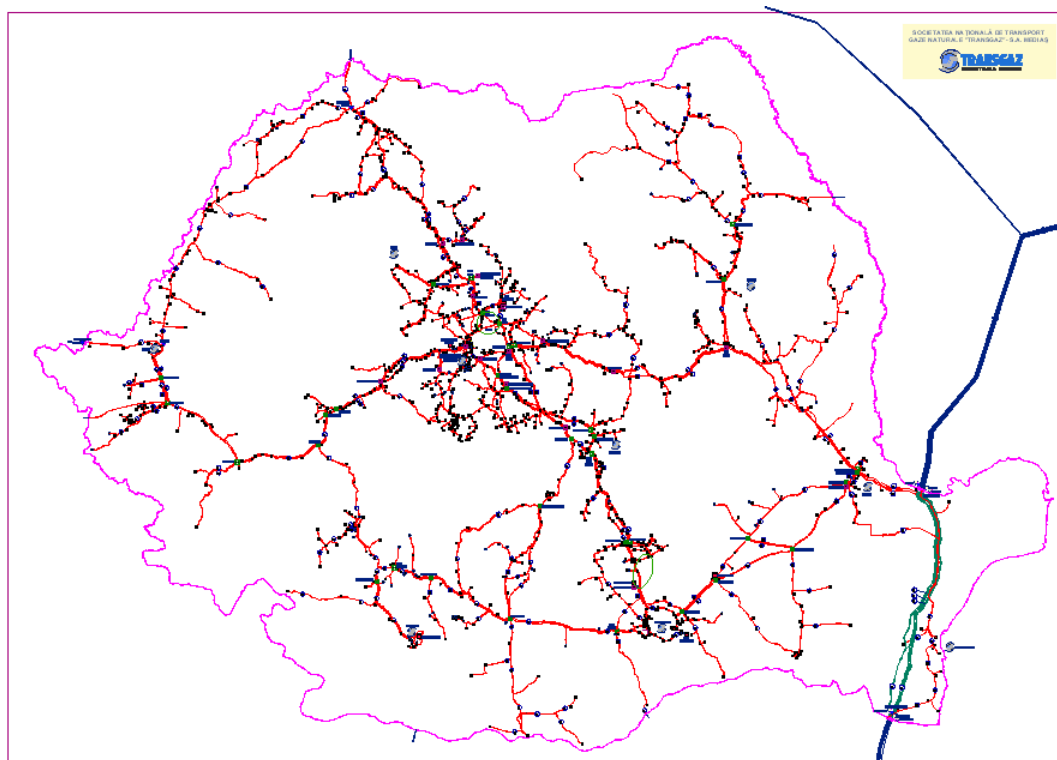
## Chapter 2. TRANSGAZ TANGIBLE ASSETS

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

The main components of the National Natural Gas Transmission System are:

No.	NTS unit/component name	U.M.	Value
0	1	2	3
1	Main transport pipelines and natural gas supply joints	km	13.240
2	Operating adjustment-measurement stations (SRM)	pcs	1077 (1192 measured directions)
3	Valve command stations (SCV, NT)	pcs	24
4	Import gas measurement stations (SMG)	pcs	3
5	Measurement stations located on the gas transit pipelines (SMG)	pcs	6
6	Gas compression stations (SCG)	pcs	5
7	Cathodic protection stations (SPC)	pcs	966
8	Gas odourisation stations (SOG)	pcs	751

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



#### *The National Natural Gas Transmission System*

The natural gas transport and transit capacity is ensured by a network of supply pipelines and joints, with diameters between 50 mm and 1200 mm, at pressures between 6-40 bar, with the exception of international transit (54 bar).

The operation of the NTS is performed through nine regional transport operating centres and one transit regional operating centre, divided into 53 sectors. From a technological point of view, NTS is composed of 9 regional natural gas transport subsystems.

## 2.2 Description and analysis of the property wear degree

### 2.2.1. Description and analysis

Transgaz operates assets belonging to the State's public domain. According to the provisions of Law no. 213 of 17<sup>th</sup> November 1998 regarding public ownership and its legal status, these assets are not subject to depreciation, except for investments from own sources in fixed assets subject to concession agreements. The amortization of expenditures for investments from own sources in fixed assets belonging to State's public domain shall be calculated for the normal remaining period of operation, according to the provisions of the Law on the Fiscal Code.

Tangible assets not belonging to the State's public domain are subject to depreciation as stipulated by Law no. 15/1994 and have the following normal periods of operation:

No.	Fixed assets categories	Period of operation (years)
0	1	2
1	Buildings and special installations	40-50
2	Machinery and equipment	15-40
3	Measurement and control devices	7-12
4	Vehicles	5-8
5	Other fixed assets	3-5

Below is an analysis of the main NTS assets, from the point of view of their period of operation:

No.	Period of operation	Transport pipelines (km)	Supply joints (km)	Number of Adjustment-Measurement Stations
0	1	2	3	4
1	> 40 years	5.037	211	113
2	Between 30 and 40 years	2.609	192	67
3	Between 20 and 30 years	1.566	184	67
4	Between 10 and 20 years	728	409	381
5	< 10 years	1.462	842	564
6	TOTAL	11.402	1.838	
		13.240		1192

As you can see, out of the 13.240 operating km of natural gas transport pipelines (13.100 km in 2009), approx. 70% have a very long actual period of operation, close to their normal period of operation. The diagnosis performed with a geometric pipeline



scraper for approx. 1.768 km (1.625 km in 2009) shows that there is a high degree of wear and tear of the tubes, which lead to the increase of the number of cathodic protection stations to 966 (942 in 2009).

The gas delivery to the distributors and final consumers is made through the 1.192 SRMs, out of which 948 are considered to be integrated in a SCADA automated control and monitoring system.

The compression capacity is ensured by 5 gas compression stations, located on the main transport axes. In 2010, rehabilitation/modernisation works were executed at the Onesti and Sinca compression stations

The dispatching of gas in the NTS is performed by various manoeuvres and in the interconnection joints of the main pipelines.

Gas odourisation is performed through a number of 751 odourisation installations (732 in 2009) which ensure an optimum odourisation of transported gas.

### 2.2.2. Performance of the repair, rehabilitation and maintenance programme

The maintenance program in 2010 is described below:

Chapter A. NTS REPAIR AND REHABILITATION WORKS (lei)				
No.	Chapter name	Scheduled 2010	Results 2010	%
0	1	2	3	$4=3/2*100$
1	Scheduled repairs of main pipelines	118.350.000	102.723.786	86,79
2	Rehabilitation of Adjustment-measurement stations (SRM)	150.000	150.000	100,00
3	Rehabilitation of technological joints	50.000	457	0,91
4	Rehabilitation of compression stations	4.040.000	4.189.596	103,70
5	Repair of special constructions associated with the SRM and SCV	500.000	73.964	14,79
6	Rehabilitation of cathodic protection stations (SPC)	2.700.000	2.518.174	93,26
7	Repair of buildings	800.000	620.116	77,51
8	Repair and rehabilitation of transit pipelines and installations related to the natural gas transit system	2.840.000	2.021.980	71,20
	<b>TOTAL WORKS</b>	<b>129.430.000</b>	<b>112.298.073</b>	<b>86,76</b>

**Chapter B. NTS MAINTENANCE ASSURANCE SERVICES (lei)**

No.	Chapter name	Scheduled 2010	Results 2010	%
0	1	2	3	4=3/2*100
1	Repair and maintenance services for gas compression aggregates	2.050.000	675.299	32,94
2	Repair and maintenance services for mechanical and special installations of SRMs, SCVs	650.000	500.861	77,05
3	Repair services for installations and special constructions of SRMs, SCVs	100.000	57.773	57,77
4	Maintenance and repair services for infrastructure and TC equipment	400.000	97.496	24,37
5	Repair services for machinery sub-assemblies, machines, work installations, measurement and control devices	800.000	755.790	94,47
6	Repair services for gas measurement systems	500.000	334.880	66,98
7	Repair services for means of transport	1.000.000	2.400.810	240,08
8	Pipeline diagnosis services	800.000	787.783	98,47
9	Non-destructive control services for welding and metal elements	250.000	130.789	52,31
10	Special pipeline control services	0	0	
11	Pipeline insulation services	150.000	144.766	96,51
12	Equipment rental services	50.000	0	
13	Persons and goods transport services	400.000	219.330	54,83
14	Studies and technical expertise services	950.000	1.025.649	107,96
15	Environmental services	100.000	32.066	32,10
16	Services of related to the natural gas transport system	300.000	115.364	38,45
17	TI maintenance services	1.050.000	844.844	80,46
<b>TOTAL SERVICES</b>		<b>9.550.000</b>	<b>8.123.500</b>	<b>85,06</b>
<b>TOTAL WORKS+SERVICES</b>		<b>138.980.000</b>	<b>120.421.573</b>	<b>86,64</b>

The maintenance works performed with own resources (territorial explorations, Department of Exploitation Maintenance and SMIR), is presented below:

No.	Programmes executed with own resources	Scheduled 2010	Results 2010	%
0	1	2	3	4=3/2*100
1	Repairs and rehabilitations executed by the interventions workshop	6.000.000	5.721.588	95,36
	<b>TOTAL</b>	<b>6.000.000</b>	<b>5.721.588</b>	<b>95,36</b>

In conclusion, the development and implementation of the maintenance programme aimed at increasing the efficiency of repair works, the rational use of allocated funds and compliance with the Transgaz investment programme.

### 2.2.3. The investment programme

The investment activity is very important for the natural gas transport field. It is mainly focused on the development, modernisation of NST for the purpose of increasing its capacity and the creating of a new consumption zone.

*The scheduled value of investments in 2010* was 317.660 thousand lei, the actual value is 410.157 thousand lei which includes the 109.809 thousand lei used for the NTS connection installations executed based on the NTS access regulation approved by GD no. 1043/2004.

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

	<b>Scheduled</b>	<b>Results</b>
▪ Investments, including:	317.660	410.157
-connection installations to NTS	-	109.809
▪ Reimbursement of loans for investments	61.453	61.737
<b>TOTAL EXPENDITURES</b>	<b>379.113</b>	<b>471.894</b>

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

	<b>Scheduled</b>	<b>Results</b>
▪ Net profit allocated for own financing	30.655	37.619
▪ Depreciation	146.314	135.267
▪ Bank loans:	123.126	75.500
▪ NTS connection tariff		109.809
▪ Collections from previous period	79.018	75.500
<b>TOTAL FUNDING SOURCES</b>	<b>379.113</b>	<b>433.695</b>
▪ <b>SOURCES DEFICIT</b>		<b>38.199</b>

We mention that, pursuant to **Emergency Ordinance no. 55/23<sup>rd</sup> June 2010 regarding some measures to decrease public expenditures**, article V which states that *"the remaining accounting profit after profit tax deduction is allocated in proportion of minimum 90% as duties to the local or state budget, for autonomous administrations, or as dividends under the law, for national companies, public and commercial companies with entirely or majority state-owned capital"*, our own sources of investments suffered a substantial reduction. According the the Decision of the Board of Directors no. 11/2010, the investment expenditures was maintained at 379.113 lei of the initial IEB in 2010, as approved by the Governemt Decision no. 320/31<sup>st</sup> March 2010. The financing sources deficit was planned to be covered by contracting several bank loans, totaling **123.126 thousand lei**, as set forth in the 2010 ammended and approved IEB.

The sources deficit recorded as of 31<sup>st</sup> December 2010 is the result of the partial drawing from the loan set forth in the income and expenditures budget and contracted with BRD Societe Generale. From the total amount of 120.000 thousand lei of the

contracted loan, only 77.500 thousand lei could be withdrawn due to the fact, until the the contracted loan was activated, the investment works were developed for more than 75%. Under those circumstances, the company took the necessary steps to direct the remaining amount of 44.500 thousand lei to the partial financing of the modernization and investment development program in 2011. Consequently, the deficit at the end of 2010 could be covered by transferring it in the 2011 expenditures budget.

The results of the 2010 modernisation, development and investments programme are presented in the table below:

Chapter	Works category	Scheduled 2010		Results 2010		( % )
		Physically km)	Value (lei)	Physically(km)	Value (lei)	
0	1	2	3	4	5	6=5/3*100
<b>Cap.A</b>	<b>NTS modernisation and development works</b>	<b>83,10</b>	<b>221.050.000</b>	<b>95,74</b>	<b>235.224.448</b>	<b>106,41</b>
1	<b>Modernisation and revamping of the National Gas Transport System</b>	0,00	71.290.000	0,00	<b>68.313.992</b>	95,82
1.1.	<i>Modernisation of NTS associated technological installations (SRM, SCV, PM, NT)</i>	0,00	51.390.000	0,00	46.847.411	91,20
1.2.	<i>Supervisory Control and Data Acquisition System</i>	0,00	19.900.000	0,00	21.466.581	107,87
2	Development of the National Natural Gas Transmission System and associated installations	83,10	149.760.000	95,74	<b>166.910.456</b>	111,45
2.1.	<i>Natural gas transport pipelines</i>	83,10	142.160.000	95,74	159.166.517	112,00
2.2.	<i>Interconnection pipelines</i>	0,00	6.700.000	0,00	7.346.467	109,64
2.3.	<i>NTS technological installations</i>	0,00	900.000	0,00	397.472	44,16
<b>Cap.B</b>	<b>Own assets modernisation and development works</b>	<b>0,00</b>	<b>46.610.000</b>	<b>0,00</b>	<b>39.821.580</b>	<b>86,66</b>
1	Modernisation of buildings	0,00	400.000	0,00	123.001	30,75
2	Other works	0,00	36.810.000	0,00	32.606.140	90,19
3	Independent equipments	0,00	8.900.000	0,00	6.761.286	75,96
4	Expenditures for studies and transit projects	0,00	500.000	0,00	331.153	66,23
<b>Cap.C</b>	<b>NABUCCO Project</b>	<b>0,00</b>	<b>50.000.000</b>	<b>0,00</b>	<b>23.912.920</b>	<b>47,82</b>
<b>Cap.D</b>	<b>Works executed according to RGD 1043 - NTS Access Regulation</b>	<b>0,00</b>	<b>0</b>	<b>36,00</b>	<b>109.808.923</b>	
<b>TOTAL A + B + C</b>		<b>83,10</b>	<b>317.660.000</b>	<b>95,74</b>	<b>298.958.948</b>	<b>94,30</b>
<b>TOTAL A + B + C + D</b>		<b>83,10</b>	<b>317.660.000</b>	<b>131,74</b>	<b>408.767.871</b>	<b>128,95</b>
<b>Lands</b>					<b>1.390.000</b>	
<b>TOTAL INVESTMENTS</b>			<b>317.660.000</b>		<b>410.157.871</b>	<b>129,39</b>

The main NTS development and modernisation objectives which were completed and taken over in 2010 are:

- Natural gas transport pipeline Ø 12" Gheorgheni - Toplita;
- Natural gas transport pipeline Ø 28" Sărmăşel - Band;
- Natural gas transport pipeline Ø 16" Vaslui - Iasi, stage I;

- Natural gas transport pipeline Ø 24" Masloc - Arad;
- Natural gas transport pipeline Ø 16" Urziceni - Ploiesti;
- Natural gas transport pipeline Ø 8" Pericei - Crasna;
- Natural gas transport pipeline Ø 6" Podeni - Negresti;
- Modernisation of Onesti technological joint;
- Modernisation of Hurezani technological joint.

#### **2.2.4. Accessing community funding**

Under the European Energy Programme for Recovery, based on the European Commission's decision issued in accordance with Regulation 663/2009 of the European Parliament and Council, on 4<sup>th</sup> March, 2010 was approved the European funding of the following projects:

- The Romanian National Natural Gas Transport System Dn 700x6,3 Mpa interconnecting pipeline with the West European System on the Szeged-Nădlac-Arad axis, having a value of 32.812.856 euro (out of which 17.183.920 euro for the Romanian party for states II and III), while the value of the Transgaz co-financing is 8.279.002 euro, as confirmed by the Decisions of the European Commission C(2010)7510 final dated 5<sup>th</sup> November 2010;
- The increase of natural gas supply safety in Romania and Bulgaria by ensuring the reversible gas flow on the Bulgarian transit pipeline, amounting to 3.150.000 euro; the value of the co-financing is 1.560.000 euro, as confirmed by the Decisions of the European Commission C(2010)7510 final dated 30<sup>th</sup> July 2010;
- the Bulgaria-Romania interconnection (Giurgiu-Ruse pipeline) having an estimated value of 23.823.836 euro (out of which 10.093.952 euro for the Romanian party); while the value of the co-financing is 8.929.000 euro, out of which an amount of 4.553.706 euro was approved for Transgaz by the Final C(2010)5962 dated 6<sup>th</sup> September 2010. A frontpayment of 1.366.111,8 euro from the cofinance amount was transferred in December 2010.

### Chapter 3. THE MARKET OF SECURITIES ISSUED BY TRANSGAZ

2010 was the third year Transgaz was present on the Romanian capital market. After three years, Transgaz is entitled to state, with certainty and responsibility, that it acquired a new, profitable and special experience which enabled a greater efficiency and an increased level of transparency regarding the activity carried out, including its objectives.

2010 was a year of unexpected recovery of stocks listed on the stock exchange, after the 2008 falls. If, at the end of 2008, a "TNG" share depreciated with over 60% of the value at the beginning of the year, at the end of 2009 it recorded a 50% appreciation and at the end of December 2010 the price of TNG share reached the value of January 2008.

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

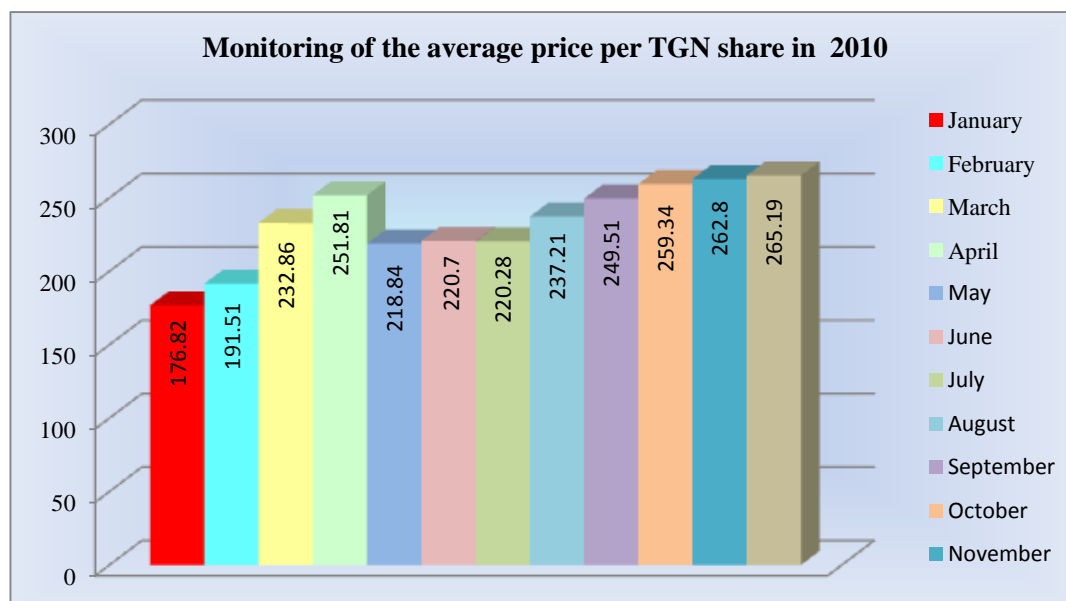
The transactions of TGN shares at the BVB are defined by the following coordinates: **TGN** symbol; ISIN Code **ROTGNTACNOR8**; BVB section - **category I, main market REGS**.

A short presentation of Transgaz activity in 2010, in its capacity of issuer of securities illustrates the following aspects:

- a number of 250 trading sessions, where TGN titles were traded in 19.793 transactions, which means an average of 79 transactions/day. The number of transactions reached a maximum number of 3.961 transactions in March 2010 and a minimum number of 641 transactions in December 2010 ;
- the total volume of traded TGN shares was 677.388 shares, with a maximum of 120.904 shares in July 2010 and a minimum of 18.890 shares in November 2010;
- the traded value in 2010 was 152.763.672,45 lei , which, reported to the number of traded shares, indicated an average price of 225,52 lei/share in 2010;
- compared to the values recorded at the beginning of 2010 (January), TGN shares oscillated; therefore, at the end of the year (December) even if the value of the transactions decreased by almost 26%, the price of the shares increased by 50%.
- the graphic representation of the average price per TGN share in 2010 is as follows:

No.	Month	Volume	Transaction value (lei)	Average price (lei/share)
0	1	2	3	4=3/2
1	JANUARY	53.562	9.470.611,30	176,82
2	FEBRUARY	58.766	11.254.438,90	191,51

3	MARCH	110.183	25.657.687,30	232,86
4	APRIL	62.629	15.770.495,20	251,81
5	MAY	98.869	21.636.351,40	218,84
6	JUNE	43.978	9.705.734,80	220,70
7	JULY	120.904	26.633.179,90	220,28
8	AUGUST	27.743	6.580.921,90	237,21
9	SEPTEMBER	29.873	7.453.648,50	249,51
10	OCTOBER	25.840	6.701.286,60	259,34
11	NOVEMBER	18.890	4.964.360,00	262,80
12	DECEMBER	26.151	6.934.956,65	265,19
	<b>TOTAL</b>	<b>677.388</b>	<b>152.763.672,45</b>	<b>225,52</b>



- compared to the beginning of the year, the stock exchange capitalisation increased at the end of 2010 with almost 76%, from 1,87 billion to 3,29 billion lei;
- besides other advantages, the strength of the TGN share, supported by an accounting value which increased in 2010 from 200,73 lei/share to 218,94 lei/share, represents the basis of the TGN share being maintained within the limits of the BVB stock exchange ratios;



- The chart created by using the AMIBROKER programme reflects the positioning of the TGN share which had an explosive ascending trend starting with January 2010, reaching the price of 268 lei/share in April 2010, followed by a correction at the end of May, reaching a minimum level of 188 lei/share, followed by an ascending trend;
- The period of strengthening at the end of October until the end of the year determined the accumulation of energy within the share price and an explosive increase of price took place;
- The presence of the MACD indicator in the positive zone at the end of 2010 confirms the potential continuity of the ascending trend;
- The red line represents the mobile average of 20 periods (daily), an indication for the medium term investors. Increasing the price over such average limit confirms the sustenance of the trend;
- The Bollinger bands at the end of December 2010 are very close which suggests a period of increased volatility;
- During 2010, the structure of the share capital and shareholders suffered important modifications, due to the completion of the procedure for the allotment of TGN shares, based on Law no. 10/2001, amended, regarding the legal status of some real estate taken over abusively in the period 6<sup>th</sup> March 1945- 22<sup>nd</sup> December 1989;
- The structure of the share capital and shareholders of Transgaz on 31<sup>st</sup> December 2010 is as follow:

	No. of shares	Percentage
Ministry of Economy, Commerce and Business Environment	8.654.970	73.5102%
SC Fondul Proprietatea SA	1.764.620	14.9876%



Other shareholders, natural and legal persons (free-float)	1.354.254	11.5022%
<b>Total</b>	<b>11.773.844</b>	<b>100%</b>

- The number of Transgaz shareholders registered with SC Depozitarul Central SA (Central Depository) at the end of 2010 was 7.204, 1.185 shareholders less than at the beginning of the year, (8.389 shareholders);
- The share capital of TRANSGAZ on 31<sup>st</sup> December 2010 is 117.738.440 lei, divided into 11.773.844 nominal shares, each having a nominal value of 10 lei.

Transgaz did not trade its own shares, therefore the company did not own any of its own shares at the end of 2010.

### 3.2. Description of the Transgaz dividend policy

Notwithstanding the provisions of Article 1. Paragraph (1), letter f) of Government Ordinance no. 64/2001 on profit distribution to national companies, public and commercial companies with entirely or majority state-owned capital as well as the autonomous administrations, approved by Law no. 769/2001, with subsequent amendments and completions, under the Emergency Ordinance no. 55/23<sup>rd</sup> June 2010 on some measure of reducing public expenditures for fiscal year 2010, national companies, public and commercial companies with entirely or majority state-owned capital, the 90% of the accounting profit remaining after deduction of income tax is allocated as dividends.

The company records and pays dividends allocated from the net profit only after the approval of the annual financial statements by the General Shareholders' Meeting.

The situation of dividends allocated from the net profit between 2008 - 2010 is the following:

	UM	2008	2009	2010(proposal)
0	1	2	3	4
Allocated dividends	lei	123.272.146,68	153.295.448,88	338.733.491,88
- percentage from the net profit	%	51,57	51,33	92,06

### 3.3. The intent of Transgaz of purchasing own shares

Transgaz nu intentioneaza să achizitioneze actiuni proprii.

### 3.4. The number and nominal value of shares issued by the mother company and owned by subsidiaries

Transgaz has no subsidiaries.

### 3.5. Obligatiuni si/sau alte titluri de creantă

Transgaz did not issue any debentures or debt securities in the analysed period.

## Chapter 4 COMPANY MANAGEMENT

### 4.1. Presentation of directors

The list of company directors in 2010:

1. **SCHMIDT VICTOR ALEXANDRU** **president of the Board of Directors** - appointed by Order of the Ministry of Economy no. 576/24.03.2009, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 28.04.2009 – present day
2. **MUNTEAN FLORIN** **member** - appointed by Order of the Ministry of Economy no. 1742/05.10.09, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 16.11.2009 – until 15.09.2010
3. **COSMA EMIL FLORIN** **member** - appointed by Order of the Ministry of Economy, Trade and Business no. 1689/15.09.2010 – present day;
4. **BUSUIOC MIHAI** **member** - appointed by Order of the Ministry of Economy no. 576/24.03.2009, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 28.04.2009 – present day;
5. **ALBULESCU MIHAI** **member** - appointed by Order of the Ministry of Economy no. 576/24.03.2009, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 28.04.2009 – present day;
6. **RAICU IONICA** **member** - appointed by Order of the Ministry of Economy no. 576/24.03.2009, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 28.04.2009 – present day.

#### 4.1.a). CVs of the Directors

Attached are the CVs of the current directors:

- a) Schmidt Victor Alexandru
- b) Cosma Emil Florin
- c) Busuioc Mihai
- d) Albulescu Mihai
- e) Raicu Ionica
- f) Muntean Florin

#### 4.1.b). Agreements/understandings or special family relationships

According to the information supplied by the aforementioned members of the executive management:

- 👍 there is no agreement or family relationship between the person in question and another person by whose influence the person in question was appointed member of the executive management;
- 👍 no member of the executive management was convicted for possible fraud committed in the last five years;
- 👍 there are no proceedings regarding the person's in question capacity of fulfilling his/her responsibilities.

**4.1.c). Participation of the directors to the Transgaz capital**

The table below presents the situation of Transgaz shares owned by Transgaz directors:

No.	Directors	Number of shares held on 31.12.2010	Participation quota to the company's share capital (%)
1.	Schmidt Victor Alexandru	-	-
2.	Cosma Emil Florin	-	-
3.	Busuioc Mihai	-	-
4.	Albulescu Mihai	-	-
5.	Raicu Ionica	-	-

**4.1.d). List of affiliated companies**

1. . NABUCCO GAS PIPELINE INTERNATIONAL, having its head office in Vienna, of which Transgaz owns 16,67% of the share capital; its object of activity is the development of the Nabucco project;

2. SC MEBIS SA Bistrita, having its head office in Bistrita (J06/150/1991), of which Transgaz owns 17,47% of the share capital; its object of activity is the manufacture of metal structures and complex welded assemblies, hydraulic assemblies and products. The company is undergoing insolvency procedures, according to file no. 101/112/2009 on the dockets of the Bistrița-Năsăud Court of Law, Legal and Administrative and Fiscal Litigation Section;

3. SC "Resial"SA having its head office in Alba Iulia (J01/77/1991), where Transgaz owns 68,16 % of the share capital; its object of activity is the manufacturing and marketing of alumina silicate refractory products.

The company is undergoing insolvency procedures, according to file no. 41/107/2005 on the dockets of the Alba Court of Law, Legal and Administrative and Fiscal Litigation.

## 4.2. The members of the executive management

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

No.	Last name and first name	Position	Department/Service
1	Pintican Iuga Liviu Traian	Deputy General Manager	
2	Rusu Ioan	Deputy General Manager	
3	Moldovan Radu Costică	Manager	Economic Department
4	Chetan Ioan	Manager	Operation Department
5	Barbu Viorel	Manager	Development Department
6	Lata Ilie	Manager	Exploitation Department
7	Rosu Elena	Manager	Legal Office
8	Chis Ioan	Manager	Human Resources Office
9	Mohan Aurel	Manager	Quality, Environment, Occupational Health and Safety Office
10	Ghidiu Elisabeta	Manager	Strategy, Capital Market, Communication and Corporate Relations Office
11	Mates Angela	Manager	Accounting Office
12	Marin Dumitru	Manager	Budget, Financing Office
13	Stoia Gheorghe	Manager	Information Technology and Communications Office
14	Paraschiv Nelu	Manager	Training, Works Execution Office
15	Rău Ioan	Manager	Exploitation, Maintenance Office
16	Florea Vasile	Manager	Commercial Balance Office
17	Sai Alexandru	Manager	Measurement and Natural Gas Quality Department
18	Pătărnice Mihai	Manager	National Dispatching Centre
19	Stroia Gheorghe Marius	Manager	Bucharest Dispatching Center
20	Bunea Florin	Deputy director	Bucharest Dispatching Center
21	Muntean Aurel	Deputy director	Measurement and Natural Gas Quality Department
22	Lascu Sergiu	Deputy director	Information Technology and Communications Office
23	Novac Mircea	Head Engineer	Design Department
24	Moisin Ioan	Head Engineer	Research Department

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

The Transgaz executive and management personnel is appointed, employed and dismissed by the General Manager.

**4.2.c). List of Transgaz executive management members, including regional operating centres and Transgaz shares held by these members**

No.	Last name and first name	Position/Department/Office	No. of shares on 31.12.10	Participation quota (%)
1	Pintican Liviu	Deputy General Director	-	-
2	Rusu Ioan	Deputy General Director	2508	0.02130
3	Moldovan Radu	Manager/Economic Department	-	-
4	Chetan Ioan	Manager/Operation Department	-	-
5	Barbu Viorel	Manager/Development Department	-	-
6	Lata Ilie	Manager/Exploitation Department	46	0.00039
7	Rosu Elena	Manager/Legal Office	-	-
8	Chis Ioan	Manager/Human Resources Office	-	-
9	Mohan Aurel	Manager/Quality, Environment, Occupational Health and Safety Office	17	0.00014
10	Ghidiu Elisabeta	Manager/Strategy, Capital Market, Communication and Corporate Relations Office	-	-
11	Stoia Gheorghe	Manager /Information Technology and Communications Office	5	0.00004
12	Mates Angela	Manager/Accounting Office	-	-
13	Marin Dumitru	Manager/Budget Financing Office	-	-
14	Florea Vasile	Manager/Commercial Balance Office	14	0.00012
15	Paraschiv Nelu	Manager/Works Execution Preparation Office	9	0.00007
16	Rau Ioan	Manager/Exploitation-Maintenance Office	-	-
17	Sai Alexandru	Manager / Measurement and Natural Gas Quality Department	10	0.00008
18	Pătărnice Mihai	Manager/National Dispatching Centre	97	0.00082
19	Lascu Sergiu	Deputy Director / Information Technology and Communications Office	-	-
20	Muntean Aurel	Deputy Director / Measurement and Natural Gas Quality Department	-	-
21	Novac Mircea	Head Engineer / Design Department	-	-
22	Moisin Ioan	Head Engineer / Research Department	-	-
23	Cojocaru Nicolae	Head Engineer exploitation / Exploitation-Maintenance Office	-	-
24	Moldovan Gheorghe	Head Engineer Gas compression / Exploitation-Maintenance Office	-	-
25	Stroia Gh. Marius	Manager / Bucharest Dispatching Center	-	-
26	Polosan Zaharie	Manager / E.T. Medias	-	-
27	Gherghe Cristian	Manager / Transit E.T. Constanta	-	-
28	Andrei Romeo	Manager / E.T. Constanta	-	-
29	Tandău Marcel	Manager / E.T. Cluj	-	-
30	Bachios Gheorghe	Manager / E.T.Arăd	-	-
31	Cristolovean Gheorghe	Manager / E.T.Brasov	-	-
32	Bâldea Dan Iulian	Manager / E.T. Bucuresti	-	-
33	Schmidt Eduard	Manager / E.T. Bacău	-	-
34	Nită Viorel	Manager / E.T. Craiova	5	0.00004
35	Gurgu Victorel	Manager / E.T. Brăila	-	-
36	Bunea Florin	Deputy Director / Bucharest Dispatching Center	-	-
37	Păunescu Farida	Head Accountant / Transit E.T. Constanta	-	-
38	Popa Daniela	Head Accountant / E.T. Medias	-	-
39	Buneci Doina	Head Accountant / E.T. Constanta	-	-

No.	Last name and first name	Position/Department/Office	No. of shares on 31.12.10	Participation quota (%)
40	Negrea Felicia	Head Accountant / E.T. Cluj	23	0.00019
41	Stancu Mihaela	Head Accountant / E.T. Craiova	-	-
42	Parisescu Nelida	Head Accountant / E.T. Brăila	-	-
43	Condrea Maria	Head Accountant / E.T.Arad	-	-
44	Vătavu Ioan	Head Accountant / E.T.Brasov	25	0.00021
45	Bandol Elisabeta	Head Accountant / E.T. Bucuresti	-	-
46	Frunceac Liliana	Head Accountant / E.T. Bacău	-	-
47	Bucătaru Aurel	Head Engineer / E.T. Bacău	-	-
48	Bărbulescu Paul	Head Engineer / E.T. Bucuresti	-	-
49	Bucur Ovidiu	Head Engineer / E.T.Brasov	-	-
50	Pasca Florin	Head Engineer / E.T.Arad	-	-
51	Călburean Ioan	Head Engineer / E.T. Cluj	-	-
52	Bucur Adrian	Head Engineer / E.T. Medias	-	-
53	Fratostiteanu Angelo	Head Engineer / E.T. Craiova	-	-
54	Gherghe Doru	General Manager Adviser	35	0.00029
55	Tataru Ioan	General Manager Adviser	25	0.00021

## Chapter 5. CORPORATE GOVERNANCE

Corporate governance is a concept with a very wide connotation that includes elements such as managers' responsibility for accuracy of information in financial reports, the existence of very tight deadlines for financial reporting, communication and full transparency of financial results, transparency of internal audit, processes and external audit. The companies listed on the market regulated by the Bucharest Stock Exchange S.A. shall implement and shall comply voluntarily with the provisions of the Corporate Governance Code of the Bucharest Stock Exchange S.A. (CGC of BSE), approved by the Board of the Bucharest Stock Exchange S.A. in December 2007. According to article 4 of title VI of the Bucharest Stock Exchange Code – Book I, the reporting requirement set forth in article 94 (Corporate Governance Statement) of title II shall be enforced starting with the publishing date of the 2010 annual report. CGC of BSE comprises 19 principles and 41 recommendations, equally binding and important. The issuers listed in the BSE are adopting voluntarily, self-conscious, the provisions of the CGC of BSE and are reporting to BSE their compliance, in whole or in part, by submitting a **Statement regarding the compliance or lack thereof with the provisions of CGC (Comply or Explain Statement)**. The implementation and enforcement of corporate governance codes, politics and principles allows companies not only to ensure a balance between compliance and performance, but also an effective improvement of the economic efficiency and the investment environment. For that reason, SNTGN TRANSGAZ SA Medias, as issuer of securities on the Romanian capital market, in compliance with the following legal regulations:

- The Capital Market Law No. 297/2004, amended;
- Regulation no. 1/2006 of the Romanian National Securities Commission (RNSC) on issuers and operations with securities, amended by RNSC Regulation no. 31;
- Bucharest Stock Exchange Code;
- The Corporate Governance Code of BSE, Rec.1;

and the provisions of article 9, letter a, b, d of the Decision of the Board of Directors' Meeting no. 16/30.10.2009 on the analysis of BSE Corporate Governance Code implementation, initiated the drafting of the document ***"The Corporate Governance Regulations of SNTGN TRANSGAZ SA MEDIAS"***. The document follows the industry specific structure requirements; it was approved by the Decision no. 1 of the General Shareholders' Meeting held on 02.03.2011 and includes 9 chapter, as follows:

- Chapter 1 – **Corporate governance structures:** the Board of Directors, the Advisory Committee, the Executive Management, the Professional Conduct Code;
- Chapter 2 – **The rights if shareholders:** the rights of shareholders, the treatment of shareholders;
- Chapter 3 – **The Board of Directors:** the role and responsibilities of the Board of Directors, the apointment of the Board of Directors members, the compensation of the Board of Directors members;
- Chapter 4 – **Transparency, financial reporting, internal audit and risk management:** transparency and financial reporting;
- Chapter 5 – **Conflicting interests and transactions with persons involved:** conflicting interests, transactions with persons involved;
- Chapter 6 – **Corporate information status;**
- Chapter 7 – **Social responsibility;**
- Chapter 8 – **Management system;**
- Chapter 9 – **Final provisions.**

This if a reference document, considering that it transposes those principles and recommendations of the BSE Corporate Governance Code which are relevant for Transgaz and which shall be implemented and enforced/explained as approved by the Board of Directors in Decision no.16/30.10.2009.

The elements included in the report on corporate governance are: quality, environment, corporate social responsibility (CSR), aspects of corporate governance.

A sample of **Comply or Explain Statement**, **SNTGN Transgaz SA Corporate Governance Regulations** as well as **Bucharest Stock Exchange Code** can be found on our website, in *Investor Relations* section.

#### **Information regarding the statutory, administrative and executive management of the company**

The public interest in the General Shareholders' Meeting is represented by the Ministry of Economy, Commerce and Business Environment. Its representative in the General Shareholders' Meeting is appointed and revoked by the order of the minister of economy, commerce and business environment.

The General Shareholders' Meeting of Transgaz is the management body with decisional powers over its activity and economic policies.

Transgaz has a unified management system and is administered by a Board of Directors. It has the general competence to perform all acts necessary for successfully carrying out the object of the company, except for the matters within the competence



of the General Shareholders' Meeting, according to the provisions of the Articles of Association updated on 29.03.2010, or according to the applicable laws.

The Board of Directors includes 5 members which ensure the effective supervision, analysis and evaluation of company's activity and the fair treatment of its shareholders. The Board members are elected by the General Shareholders' Meeting for a four year term, with the possibility of being revoked by the General Ordinary Meeting in case of failing to fulfill their main objectives. The Board of Directors of Transgaz is led by a president appointed by the General Shareholders' Meeting from the members of the Board of Directors which ensures the optimum operation of the company bodies.

In order to comply with the capital market law provisions (Law no. 297/2004 on the capital market, ammended and the Corporate Governance Code of BSE) the Board of Directors approved in the Board of Directors Meeting no. nr.16/2010 the establishment of five specialized advisory committees, each of them consisting of two members of the Board of Directors:

- The appointment committee;
- The compensation committee;
- The Audit committee;
- The NTS safety and security committee;
- The committee for the performance of service and product related activities within Transgaz.

The Advisory Committes have responsibilities as determined by the job description included in the internal bylaws on organization and operation of advisory committees created within the Board of Directors level. Such committees are responsible for conducting analysis and making recommendations to the Board of Directors in specific areas by submitting a quarterly activity report to the Board.

Transgaz management is provided by the General Manager, supported by two general deputy directos and executive directors.

### **The rights of the owners if financial instruments of the issuer**

All holders of financial instruments, of the same type and belonging to the same class titles, issued by Transgaz shall receive equal treatment and the company shall always make sustainable efforts to achieve an effective, active and permanent communication, in order to exercise rights in a fair manner.

The company created a special section called *Investor Relations* on its own web page where relevant information about the company are constantly updated and accessible, contributing to the transparent and fair information of interested entites. Also, Transgaz has established a specialized organizational structure for managing the

capital market activity, respectively - *Shareholders Service, Capital Markets and Corporate Relations* - whose activity is dedicated to the relationship with investors and shareholders.

### **Corporate Social Responsibility (CSR)**

As one of the company's objectives in terms of business modeling strategies from a purely economic to a social economic business, **the social responsibility activities** established by the **Social Responsibility Program (CSR) in 2010**, are a definite proof of **Transgaz's** permanent involvement in the life of the community where it operates.

*In addition to the sponsorship and social aids, in 2010 conducted 4 other CSR projects, namely:*

- *"A CLEANER ENVIRONMENT – THE GREEN OLYMPICS" – a project conducted in partnership with Medias CityHall and SC ECO-SAL SA Medias for the benefit of the local community;*
- *"INVESTING IN THE FUTURE" – a project for highschool students with outstanding grades, whose parents are employees of Transgaz and have low incomes compared to their family situation;*
- *"HAND IN HAND" – a project for secondary school students with outstanding grades, whose parents are employees of Transgaz and have low incomes compared to their family situation;*
- *"C.I.MOTAŞ ANNUAL AWARD" – a CSR project for students and master students at the University of Oil and Gas from Ploiesti and Lucian Blaga University from Sibiu – HERMANN OBERTH Faculty of Engineering, a project including a contest of scientific research papers on "Studies regarding the maintenance works for pressured pipelines".*

Also in 2010, during the humanitarian campaign initiated by the Ministry of Economy Commerce and Business Environment for helping people affected by floods, Transgaz and its employees conducted the humanitarian campaign **"PEOPLE FOR PEOPLE"** - in order to grant a 1 million Euro financial support to people in Botosani county who had been affected by natural disasters (floods, landslides, etc.), but also aids consisting of assets.

### **The issuer's responsibility towards the environment**

The Environmental Management System provides the organizational framework necessary for the implementation of the company policy on environmental management.

Environmental objectives and targets must be established such that Transgaz complies with the legal requirements, regulatory requirements of the environmental permits, including the water management permits and that the environmental impact is minimal.

One of the priorities of the Company's management is to ensure, through specific activities of prevention and protection, the best working conditions, the protection of physical and mental integrity of the workers and other participants in the work process.

During 2010, the activity related to occupational safety and security was focused mainly in fulfilling the measures provided in "the Protection and Prevention Plan" approved by the Board of Directors on the meeting held on 27<sup>th</sup> November 2009, pursuant to the Memorandum of the C.M.S.S.S.M Directorate no. 28.352/ 23.11.2009.

Please refer also to chapter no. 1.1.6. Evaluation of aspects related to the environmental impact of Transgaz main activity.

The detailed aspects referring to corporate governance are included in the attached appendix to the Directors' report.

## Chapter 6 FINANCIAL-ACCOUNTING STATEMENT

### 6.1. Comparative analysis of the economic-financial statements for the last 3 year

#### 6.1.1. Balance sheets items

The situation of balance sheet items for 2008-2010 is the following:

*\*lei\**

Indicator name	31.12.2008	31.12.2009	31.12.2010	Dynamics (%)		
0	1	2	3	4=2/1	5=3/2	6=3/1
Intangible assets	496.254.194	496.083.022	497.791.432	99,97	100,34	100,31
Tangible assets	2.183.623.309	2.441.455.964	2.731.187.567	111,81	111,87	125,08
Financial assets	1.358.401	19.180.669	46.091.817	1.412,00	240,30	3.393,09
<b>Fixed assets</b>	<b>2.681.235.904</b>	<b>2.956.719.655</b>	<b>3.275.070.816</b>	<b>110,27</b>	<b>110,77</b>	<b>122,15</b>
Inventories	40.326.519	34.955.150	27.654.123	86,68	79,11	68,58
Receivables	228.685.324	245.303.577	333.719.058	107,27	136,04	145,93
Short term financial investments	112.130.276	0	171.851.407	0,00	0,00	153,26
Cash at bank and in hand	216.731.089	196.566.265	25.755.236	90,70	13,10	11,88
<b>Current assets – TOTAL</b>	<b>597.873.208</b>	<b>476.824.992</b>	<b>558.979.824</b>	<b>79,75</b>	<b>117,23</b>	<b>93,49</b>
Pre-payments	873.297	1.340.719	1.540.861	153,52	114,93	176,44
<b>Debts: amounts to be paid within one year's time</b>	<b>347.807.623</b>	<b>336.853.787</b>	<b>357.177.874</b>	<b>96,85</b>	<b>106,03</b>	<b>102,69</b>
Current assets, respectively net current debts	249.253.607	140.114.540	203.263.326	56,21	145,07	81,55
<b>Total assets minus current debts</b>	<b>2.930.489.511</b>	<b>3.096.834.195</b>	<b>3.478.334.142</b>	<b>105,68</b>	<b>112,32</b>	<b>118,69</b>
Debts: amounts to be paid in more than one year's time	584.884.716	527.448.777	564.224.722	90,18	106,97	96,47
Provisions	29.675.456	31.286.516	31.249.312	105,43	99,88	105,30
Advance income	129.605.270	175.927.548	296.513.318	135,74	168,54	228,78
Capital and reserves						
Subscribed and paid up share capital	117.738.440	117.738.440	117.738.440	100,00	100,00	100,00
Share premiums	0	0	0			
Revaluation reserves	586.393.642	550.825.229	514.995.580	93,93	93,50	87,82
Reserves	1.255.277.282	1.397.977.997	1.579.143.738	111,37	112,96	125,80
Retained earnings	-10.407.110	-1.804.469	-1.804.469	17,34	100,00	17,34
Profit (loss) for the period	239.007.090	298.631.541	376.352.986	124,95	126,03	157,47
Appropriation of profit	0	0	0	x	x	X
<b>Equity</b>	<b>2.188.009.344</b>	<b>2.363.368.738</b>	<b>2.586.426.275</b>	<b>108,01</b>	<b>109,43</b>	<b>118,21</b>
Public patrimony	0	0	0			
Total equity	2.188.009.344	2.363.368.738	2.586.426.275	108,01	109,43	118,21

#### *Intangible assets*

Based on the Concession Agreement for the main pipelines approved by GD 668/20.06.2002 and the provisions stipulated by the Order of the Ministry of Finance

(OMF) no. 55/2009, public domain pipes have been recorded under intangible assets. In 2010, following the annual inventory, some proposals regarding the transfer of some pipelines from the state's public domain to the state's private domain have been submitted with the National Agency for Mineral Resources. These proposals did not result in a government decision, so the balance of these intangible assets remained the same in 2010.

The intangible assets increased compared to 2009, following the acquisition of several licenses and informatic software in 2010.

### *Imobilizări corporale*

#### *Tangible assets*

The tangible assets increased compared to 2009, due to:

- 👍 the commissioning, in 2010, of several fixed assets, in particular pipelines;
- 👍 the issue of some certificates attesting the property rights over the land, according to GD no. 834/1991;
- 👍 the performance of landscaping works at Gaz Metan football field.

#### *Financial assets*

The financial assets recorded a significant increase in 2010, mainly due to:

- 👍 the contribution to the increase of the share capital of Nabucco Gas Pipeline International GmbH Viena, amounting to 5.600.000 Euro;
- 👍 set-up of guarantees for the temporary removal of some plots of land from the agricultural use, amounting to 2.797.190 lei.

#### *Receivables*

On 31<sup>st</sup> December 2010, the receivables balance was higher than the 2009 value, due to the application of the new invoicing procedure, namely the invoice related to the services provided in the previous month is issued until the 15<sup>th</sup> of the current month. At the same time, outstanding receivables decreased compared to 2008, due to the collection of some receivables from SC Termoelectrica SA, pursuant to an instalment agreement.

#### *Short-term investments*

Due to the enforcement of OMFP nr.3055/2009 starting with 01.01.2010, the short-term bank deposits of the company were reclassified to short-term financial investments.

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

On 31<sup>st</sup> December 2010, the amount of cash at bank decreased compared to 2009. This evolution is explained by the payment of asset suppliers and of maintenance providers,

according to the 2010 programmes 2010 on one hand and to the reclassification described in the paragraph above, on the other hand..

#### *Short-term debts*

The debts which must be paid within one year's time decreased compared to 31<sup>st</sup> December 2009, due to the registration in December of the debts to asset suppliers and to maintenance providers. According to contractual terms, these debts must be paid within 60 days.

#### *Long-term debts*

The debts to be paid in more than one year's time recorded a slight increase compared to 2009, due to the contracting of a long term bank loan and drawing 75 million lei until 31.12.2010.

On 31<sup>st</sup> December 2010 the status of Transgaz medium and long term loans is the following:

No.	Financing bank	Loan currency	Loan value	Balance on 31.12.2010
1.	BIRD	USD	6.933.684,00	1.534.646,81
2.	UNICREDIT TIRIAC ROMANIA	RON	100.600.000,00	37.063.156,00
3.	BRD GSG	RON	75.500.000,00	75.500.000,00

#### *Equity*

The value of the subscribed and paid up share capital on 31<sup>st</sup> December 2009 and 31 December 2010, suffered no modifications.

The revaluation reserves recorded a decrease of 35.829.649 lei, through their transfer to the company reserves.

The reserves recorded an increase following the appropriation of a quota of the 2009 net profit, performed after the approval of the financial statements by the General Shareholder's Meeting.

### **6.1.2. Profit and loss account**

The operating income is generated by the following activities:

- 👉 natural gas transport;
- 👉 international natural gas transit;
- 👉 other operating income.

The evolution of the profit and loss in the 2008-2010 period is the following:

No.	Specification	Results (lei)			Dynamics (%)		
		2008	2009	2010			
0	1	2	3	4	5=3/2	6=4/3	7=4/2
<b>1.</b>	<b>TOTAL income, out of which:</b>	<b>1.175.886.218</b>	<b>1.258.467.898</b>	<b>1.377.109.896</b>	<b>107,02</b>	<b>109,43</b>	<b>117,11</b>
1.1	Operating income	1.138.318.102	1.220.014.804	1.342.933.371	107,18	110,07	117,97
1.2	Financial income	37.568.116	38.453.094	34.176.525	102,36	88,88	90,97
1.3	Extraordinary income	-	-	-	-	-	-
<b>2.</b>	<b>TOTAL expenditures, out of which:</b>	<b>890.743.584</b>	<b>897.186.393</b>	<b>925.605.375</b>	<b>100,72</b>	<b>103,17</b>	<b>103,91</b>
2.1	Operating expenditures	857.374.943	874.867.226	899.269.259	102,04	102,79	104,89
2.2	Financial expenditures	33.368.641	22.319.167	26.336.116	66,89	118,00	78,92
2.3	Extraordinary expenditures	-	-	-	-	-	-
<b>3.</b>	<b>GROSS PROFIT, out of which:</b>	<b>285.142.634</b>	<b>361.281.505</b>	<b>451.504.521</b>	<b>126,70</b>	<b>124,97</b>	<b>158,34</b>
3.1	Operating profit	280.943.159	345.147.578	443.664.112	122,85	128,54	157,92
3.2	Financial profit	4.199.475	16.133.927	7.840.409	384,19	48,60	186,70
3.3	Extraordinary profit	-	-	-	-	-	-
<b>4.</b>	<b>PROFIT TAX</b>	<b>46.135.544</b>	<b>62.649.964</b>	<b>75.151.535</b>	<b>135,80</b>	<b>119,95</b>	<b>162,89</b>
<b>5.</b>	<b>NET PROFIT</b>	<b>239.007.090</b>	<b>298.631.541</b>	<b>376.352.986</b>	<b>124,95</b>	<b>126,03</b>	<b>157,46</b>

### Operating income

The status of the operating income in the 2008-2010 period is the following:

No.	Specification	Results (lei)			Dynamics (%)		
		2008	2009	2010			
0	1	2	3	4	5=3/2	6=4/3	7=4/2
<b>1.</b>	<b>Income from the transport activity</b>						
	- thousand m <sup>3</sup>	13.592.552	11.548.833	12.306.552	84,96	106,56	90,54
	- lei	916.527.391	939.194.107	1.054.013.720	102,47	112,22	115,00
	- lei/1000 m <sup>3</sup>	67,43	81,32	85,65	120,61	105,32	127,02
<b>2.</b>	<b>Income from the transit activity</b>						
	- lei	200.118.623	242.735.652	254.088.896	121,30	104,68	126,97
<b>3.</b>	<b>Other operating income</b>						
	- lei	21.672.088	38.085.045	34.830.755	175,73	91,46	160,72
<b>*</b>	<b>TOTAL OPERATING INCOME</b>	<b>1.138.318.102</b>	<b>1.220.014.804</b>	<b>1.342.933.371</b>	<b>107,18</b>	<b>110,075</b>	<b>117,98</b>

The income from the operating activity recorded an increase in 2010 compared to 2009, due to:

- the increase of the transported natural gas and the adjustment of the transport tariffs;

- the increase of income from the transit service.

### Financial income

The financial income recorded a slight increase compared to the previous year, due to the increase of income from interest collected for liquid assets in bank accounts.

### Operating expenditures

The status of the operating expenditures in the 2008-2010 period is the following:

No.	Specification	Results (lei)			Dynamics (%)		
		2008	2009	2010	5=3/2	6=4/3	7=4/2
0	1	2	3	4	5=3/2	6=4/3	7=4/2
1	Consumption and technological losses in the transport system						
	- thousand m <sup>3</sup>	379.757	301.721	283.775	79,45	94,05	74,72
	- lei	193.473.425	148.877.015	134.173.113	76,95	90,12	69,35
	- lei/1000 m <sup>3</sup>	509,47	493,43	472,82	96,85	95,82	92,81
2	Auxiliary materials	21.390.803	22.859.835	19.869.498	106,87	86,92	92,89
3	Electricity, water	4.562.142	5.160.003	5.512.957	113,10	106,84	120,84
4	Depreciation and provisions	82.698.435	123.060.224	135.266.706	148,81	109,92	163,57
5	Works, services executed by third parties	140.879.076	136.023.032	159.670.746	96,55	117,38	113,34
6	Salary fund	156.253.864	166.563.267	177.435.809	106,60	106,53	113,56
7	Health insurance fund, unemployment fund, other personnel expenditures	43.620.265	49.172.894	56.239.568	112,73	114,37	128,93
8	Gas quota	39.620.558	39.945.656	39.124.302	100,82	97,94	98,75
9	Food tickets	8.311.572	8.812.966	9.160.451	106,03	103,94	110,21
10	Other material expenditures:	4.696.015	4.274.567	4.400.391	91,03	102,94	93,70
11	Expenditures with other taxes and fees	12.719.958	6.732.313	9.365.672	52,93	139,12	73,63
12	Tax for the issue of the gas transport and international transit licence	4.232.865	4.497.126	11.606.742	106,24	258,09	274,20
13	Royalty for the concession of the NTS	111.664.601	118.192.976	130.810.262	105,85	110,67	117,15
14	Other operating costs	33.251.364	40.695.352	6.633.044	122,39	16,30	19,95
*	<b>TOTAL OPERATING EXPENDITURES</b>	<b>857.374.943</b>	<b>874.867.226</b>	<b>899.269.259</b>	<b>102,04</b>	<b>102,79</b>	<b>104,89</b>

Between 2008-2010, the operating expenditures increased, mainly due to the following factors:



- the expenditures for the depreciation of tangible assets increased due to the commissioning of new investment objectives, but also due to the company's use of two fixed assets registers: accounting and fiscal;
- the expenditures for works and services performed by third parties increased following the pipeline rehabilitation and maintenance works;
- the 10% royalty for the NTS concession increased compared to 2009, due to the increase of income generated by the gas transport and transit activity.

*Financial expenditures*

Financial expenditures mainly include: expenditures with interest and fees associated to contracted loans and foreign exchange losses. In 2009 the financial expenditures increased as a result of adverse foreign exchange rates.

### 6.1.3. Cash-flow

The cash-flow situation in the 2008-2010 period is presented below:

Indicator	Financial year ended on 31 <sup>st</sup> December		
	2008	2009	2010
<b>Operating activities:</b>			
Net profit	239.007.090	298.631.541	376.352.986
Depreciation expenditures	86.931.300	127.557.350	135.266.706
Expenditures/(income) related to provisions for current assets	-3.697.623	1.669.484	-36.031.162
Losses from receivables, different debtors	572.603	28.577	42.051
Adjustments related to provisions for risks and expenditures	2.501.516	1.611.060	-37.204
The effects of the exchange rate variation	11.249.834	1.663.743	822.351
Income from investment subsidies	0	0	-8.672.862
Interest income	-31.066.183	-34.717.805	-14.836.179
Interest expenses	16.585.022	12.645.100	5.462.109
Profit/Loss from the sale of tangible assets	-908.087	416.815	1.698.382
Other financial expenditures/(income)	-997	0	0
Profit tax	<u>46.135.544</u>	<u>62.649.964</u>	<u>75.151.535</u>
<b>Increase of operating cash before changes in working capital</b>	<b>367.310.019</b>	<b>472.155.829</b>	<b>535.218.713</b>
(Increase)/decrease of inventories balance	-11.032.931	4.798.918	5.067.192
(Increase)/decrease in balances of trade receivables and other receivables	-91.440.360	-69.450.944	-87.475.459
Increase in balances of trade debts and other debts	<u>45.444.145</u>	<u>37.606.336</u>	<u>158.943.264</u>
<b>Net cash flow generated by operational activities</b>	<b>310.280.873</b>	<b>445.110.139</b>	<b>611.753.710</b>
Interest receivable	31.069.444	34.554.866	14.907.081
Interest payable	-12.990.591	-10.750.426	-4.921.337
Payments related to the employees' share of profits	-6.018.084	-7.519.622	-7.808.325
Paid profit tax	<u>-45.660.049</u>	<u>-51.444.567</u>	<u>-78.819.502</u>
<b>Cash flow from operating activities</b>	<b>276.681.593</b>	<b>409.950.390</b>	<b>535.111.627</b>
Dividends receivables	0		
Sale of financial assets	-418.905	-12.289.736	-27.000.415
Proceeds from granted loans	997	0	0
Sale of assets	2.672.826	91.794	354.662
Purchase of assets	<u>-205.358.308</u>	<u>-373.157.300</u>	<u>-401.570.430</u>
<b>Cash flow used in the investment activity</b>	<b>-203.103.390</b>	<b>-385.355.242</b>	<b>-428.216.183</b>
Reimbursement of loans	-35.665.140	-32.113.023	-28.619.232
Withdrawals from loans	47.650.000	0	75.500.000
Dividends payable	-110.057.208	-122.500.718	-152.831.849
Capital increase			
Share premium			
<b>Cash flow used in the financing activity</b>	<b>-98.072.348</b>	<b>-154.613.741</b>	<b>-105.951.081</b>
<b>Cash flow - total</b>	<b><u>-24.494.145</u></b>	<b><u>-130.018.593</u></b>	<b><u>944.363</u></b>
<b>Changes in cash and cash equivalents</b>			
<b>Cash and cash equivalents at the beginning of the period</b>	<b>351.079.003</b>	<b>326.584.858</b>	<b>196.566.265</b>
Changes in cash and cash equivalents	<u>-24.494.145</u>	<u>-130.018.593</u>	<u>944.363</u>
<b>Cash and cash equivalents at the end of the period</b>	<b><u>326.584.858</u></b>	<b><u>196.566.265</u></b>	<b><u>197.510.628</u></b>

## **6.2. Management of financial risk**

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

### *6.2.1. Credit risk*

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

### *6.2.2. Exchange risk*

The company is exposed to the exchange rate variations through the debt generated by foreign currency loans or trade debts. Due to high costs, the company's policy is not to use financial instruments for the reduction of these risks.

### *6.2.3. Interest rate risk*

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

### *6.2.4. Liquidity risk*

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

### *6.2.5. Capital market risk*

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

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

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

## **Chapter 7. MISCELLANEOUS**

**7.1.** Starting with 2006 Transgaz is under the supervision of Standard&Poor's rating agency for the purpose of regular awarding and reviewing of the credit rating.

In February 2008, thanks to the economic performances of the company Transgaz received the rating for long-term loans to **BBB- with negative outlook** ("investment grade"), the best rating received by a Romanian company until now.

On 30<sup>th</sup> October 2008, following the downgrading of the sovereign rating justified by the increase of economic risks in Romania, based on the high indebtedness degree of the private sector and on the dependency on insecure external financing sources, the Standard&Poor's agency lowered Transgaz's foreign currency corporate rating from **BBB-** la **BB+**.

At the same time, the corporate rating for local currency loans was reconfirmed as **BBB-**. The outlook of both rating categories remained **negative**.

The report issued by S&P underlines the fact that the negative outlook reflects Romania's outlook and the possibility of negative macroeconomic trends in Romania.

The last review of the rating, performed on 24<sup>th</sup> March 2010, led to the improvement of Transgaz rating from "**negative**" to "**stable**" both for the loans in foreign currency, as well as the loans in local currency.

The stable perspective of Transgaz is founded on Standard&Poor's opinion that the company shall focus on the regulated natural gas transport, shall continue to obtain the corresponding operational results, in order to maintain a reduced level of indebtedness and a solid protection of cash flow.

According to the report issued in January 2011, the agency considers that Transgaz' rating might be under pressure if:

- the state's support is reduced with respect to the financial commitments in Nabucco project;
- the obligation to pay dividends raising to 90% from the net profit of the company is maintained after 2010;
- the regulatory authority in the energy field does not approve in due time the adjustment of the transport tariffs in accordance with the volume of the transported gas, in compliance with the already established strategies;
- Transgaz is not capable of performing or fails to perform on time its mandatory investment program.

According to Standard&Poor's methodology, the company's rating cannot exceed the sovereign rating, so currently the individual rating of Transgaz reached the maximum level.

## **7.2. Evolutions regarding the Nabucco project**

The energy needs in European countries is constantly increasing, and, in the absence of an additional source of primary managers, this economies shall be confronted with a continuous increase of gas demand in the near future. In addition, in order to ensure the energy supply, a diversification of supply resources is necessary, this being a delicate aspect of European energy policies.

The Nabucco project was initiated in order to attain this objective, with the participation of five industry companies: BOTAS-Turkey, Bulgargaz-Bulgaria, Transgaz-Romania, MOL-Hungary and OMV Erdgas –Austria. This project's aim is to connect and valorize the promising natural gas reserves from the Caspic Sea Area and Middle East (Iran, Iraq, Egypt) on the European markets.

On 11<sup>th</sup> October 2002, the five companies signed a **Cooperation Agreement** regarding the creation of a **Consortium**, in order to carry out a feasibility study regarding the development of a natural gas transport route from the aforementioned production areas, by building a pipeline on the territory of the five countries, having as starting points the border of Turkey with Georgia and Iran and as final point the Baumgarten Junction in Austria (important junction which collects Russian gas transited to Western Europe).

The importance of this project was also recognised by community bodies, as it was included by the European Commission on the priority list of the TEN programme (Trans European Networks) and is granted a 50% financing from the value of the pfeasibility studies, the remaining amount being ensured by the five companies. The Agreement was ratified by the European Commission in December 2003. The direct beneficiary of the grant was the project member OMV Gas, in its capacity of resident of the European Union. The other companies are considered associated beneficiaries. In addition, the European Commission granted a 4,8 million Euro financing for the co-financing of the pipeline design.

The Study Company - Nabucco Company Pipeline Study GmbH was set-up in February 2004, having its head office in Vienna Austria, and in October 2005 the Nabucco Company Pipeline Study GmbH company was renamed NABUCCO Gas Pipeline International GmbH (NIC). The company's share capital, having a total value of 35.000 EUR, is represented by an equal 20% quota participation of each of the five Consortium founding companies (shareholders).

From the point of view of the envisaged activity, the Nabucco pipeline is considered an integrated whole, both from the point of view of design, construction, maintenance and operation, as well as from the point of view of management and marketing of the transport capacity. The contractual mechanisms have been designed according to the same unitary structure.

Based on Agreements, the five subsidiaries of the Nabucco Gas Pipeline International GmbH company shall transfer to the mother company the right to transport/the transport capacity for the Nabucco pipeline sections in their countries in exchange for a tariff.

The Nabucco Gas Pipeline International Company shall contract the transport service to the beneficiaries of the transport service (one-stop-shop principle) and shall be responsible for obtaining the necessary loans for the pipeline, for the set-up of guarantees and reimbursement to the creditor institutions.

Each local National company shall be responsible for the construction of the pipeline on the territory of the country in question. The financing shall be provided by Nabucco Gas Pipeline International GmbH through agreements concluded between the mother-company and the subsidiaries.

The local Nabucco companies from the five countries shall conclude operating agreements with the local transport operators (in the case of Nabucco Romania the agreement shall be concluded with Transgaz) and the payments for the provided services shall be made under these agreements.

On 28<sup>th</sup> June 2005, the project partners signed a Partnership Agreement regarding the development of the Nabucco gas pipeline. The approvals required by Transgaz were obtained according to the Order of the MEC (Ministry of Economy and Commerce) no. 349/24.06.2005 and to the Decision of the Transgaz General Shareholders' Meeting no. 5/2005.

In February 2008 the signing of the documents took place, related to the joining of a new shareholder, the RWE Gas Midstream Company from Germany. From the point of view of the partnership mechanism, the joining of RWE was implemented by the decision to increase NIC's share capital. The other shareholders waved their right of first refusal. Therefore, the shares issued by NIC, amounting to 7.000 Euro, were purchased by RWE. Thus, the participation NIC participation quota of each shareholder changed from 20% to 16,67%. In addition, following the adopting of a new financing mechanism by the increase of the share capital, by the end of 2010 the share capital of NIC increased to 54.266.700 Euro (9.044.450 Euro/shareholder), as stated by the certificate issued by the Vienna Commercial Court on 13.12.2010

Pursuant to article 22 of the Directive no. 2003/55/EC concerning common rules for the internal market in natural gas, in 2008 the company Nabucco Gas Pipeline International GmbH (NIC) submitted to the European Commission an exemption request for the Nabucco Project against the enforcement of the European legislation relating to third party access to the system and pricing methodologies. Similar requests

were submitted in advance by NIC to the Regulators of the EU Member States involved in the Project, which granted the exemption for the pipeline sections related to their territories.

In Romania, the exemption of the Romanian segment of the Nabucco gas pipeline from the provisions of the legislation concerning the access of third parties to natural gas transport systems and tariff methodologies was granted by the ANRE Decision no. 1.228/2008, published in the Official Gazette of Romania no. 488/2008, amended and completed by the ANRE Decision no. 145/2009 and 2246/2009.

The design stage of the Nabucco pipeline was initiated in December 2007 by the contracting of a general designer. The local design activity began in April 2009. Transgaz was involved in all these works through its Design and Research Department.

Currently, the confirmation works related to the Nabucco pipeline route on Romanian territory were completed, as well as the topographic, geological and hydrological studies. Planning Certificates were obtained for the five counties crossed by the Nabucco pipeline (Dolj, Mehedinti, Caras-Severin, Timis and Arad). Also the environmental impact assessment procedure was initiated.

During the Ankara summit dated 13<sup>th</sup> July 2009, the representatives of the states transited by the Nabucco pipeline signed the Intergovernmental Agreement (IGA), which has the significance of an international treaty. The Romanian state ratified the agreement by Law no. 57/2010, published in Official Gazette no. 202 of 31.03.2010. The Intergovernmental Agreement entered into force on 01.08.2010, according to Order no. 1714/2010 of the Ministry of Foreign Affairs.

The main objective of the Intergovernmental Agreement is to support the Nabucco project by creating a legal framework supporting its implementation.

In order to support the project, it is expected the conclusion in the near future of a Project Support Agreement (PSA) for each of states transited by the Nabucco pipeline. Its signing parties will be Nabucco International Company, Nabucco National Companies and the representatives of the Member states whose territory shall be crossed by the pipeline.

Since the project financing will be ensured from contracted sources (loans) and their own sources, an important step in terms of starting the financing process of the Nabucco project was the signing of Letter of Mandate on 6<sup>th</sup> September 2010 in Brussels by the Company Nabucco Gas Pipeline International and the IFIs, namely with the European Investment Bank, the Bank for Reconstruction and Development and the International Finance Corporation (under the World Bank).

By signing the Letter of Mandate obtain information on potential volumes of financing of the project and also a commitment by these institutions to help finance the project, depending on the outcome assessments and approvals obtained by the IFIs.

Pursuant to the signing of the Letter of Mandate, information on potential financing amount for the project can be obtained, as well as a commitment by these institutions to support the financing of the project, according to the outcome of performed assessments and to the approvals obtained by the IFIs.

Project Nabucco was included in Romania's 2007-2020 energy strategy, chapter IV "Energy field development objectives and measures for their accomplishment".

**President of the Board of Directors,  
Victor Alexandru Schmidt**