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

**ANNUAL REPORT ISSUED BY THE DIRECTORS OF
SNTGN "TRANSGAZ" SA
INDIVIDUAL FINANCIAL STATEMENTS**

(AUDITED FINANCIAL STATEMENTS)

2011

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REPORT AND ISSUER IDENTIFICATION DATA

Annual report according to the provisions of art. 227, Law no. 297/June 2004, regarding the financial market, with its subsequent amendments and supplements

For the financial year concluded on: 31st December 2011

Report date: 21st March 2012

Name of the trading 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 24th 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;
- Engineering and Research 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, 6th 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 safe, transparent, efficient and competitive fulfillment of the national energy strategy for the transmission, the international natural gas transit, dispatching of the natural gas and the research-engineering activity in the area of natural gas transport.

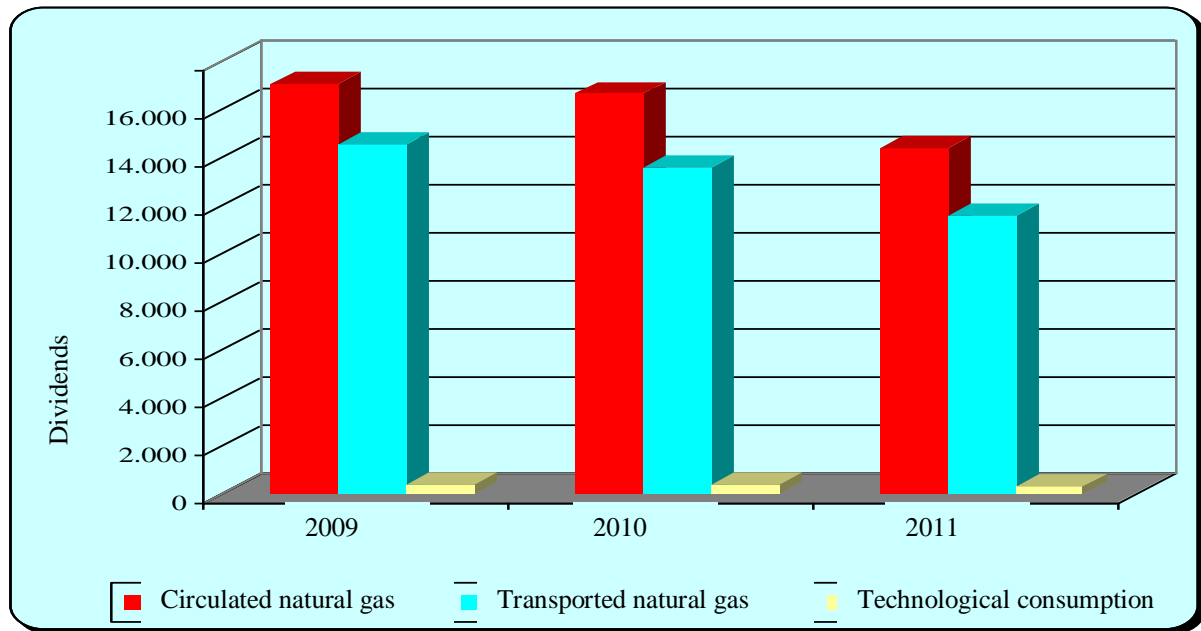
EXECUTIVE SUMMARY

Transgaz performance indicators

No.	Indicator	MU	2009	2010	2011	% variation 2010/2009	% variation 2011/2010
0	1	2	5	3	4	$6=4/3*100$	$7=5/4*100$
1	Turnover	Mil. lei	1.187,35	1.312,9 9	1.343,3 2	110,58	102,31
2	Operating revenue	Mil. lei	1.220,02	1.342,9 3	1.404,3 6	110,08	104,57
3	Operating expenditures	Mil. lei	874,87	899,27	961,79	102,79	106,95
4	Gross operating profit	Mil. lei	345,15	443,66	442,57	128,54	99,75
5	Gross financial profit	Mil. lei	16,13	7,84	19,69	48,61	251,13
6	Profit tax	Mil. lei	62,65	75,15	82,69	119,95	110,03
7	Net profit	Mil. lei	298,63	376,35	379,57	126,03	100,86
8	Gross dividend/share	lei	13,02*	28,77	29,76*	220,97	103,44

* proposal submitted for 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 2009-2011 is the following:



No.	Indicator	MU	2009	2010	2011
1	Circulated natural gas	Mil. m ³	14.381,03	14.735,00	15.476,30
2	Transported natural gas	Mil. m ³	11.548,83	12.306,55	12.820,53
3	Technological consumption	Mil. m ³	301,72	283,77	278,58
4	Technological consumption/circulated gas ratio	%	2,10	1,93	1,80

The comparative evolution of the operating incomes obtained by the company are presented in the following table:

No.	Specifications	Results			Dynamics (%)		
		2009	2010	2011	$\frac{5-3}{2} \cdot 10$ 0	$\frac{6-4}{3} \cdot 10$ 0	$\frac{7-4}{2} \cdot 10$ 0
0	1	2	3	4			
1.	Income from the transport activity						
	- lei	939.194.107	1.054.013.720	1.092.023.204	112,22	103,61	116,27
	- thousand m ³	122.830.100	131.005.622	136.133.151	106,66	103,91	110,83
	- lei/MWh	7,65	8,05	8,02	105,22	99,70	104,91
	- thousand cm	11.548.833	12.306.552	12.820.532	106,56	104,18	111,01
	- lei/1000 m ³	81,32	85,65	85,18	105,32	99,45	104,75
2.	Income from the transit activity						
	- lei	242.735.652	254.088.896	244.955.523	104,68	96,41	100,91
3.	Other operating income						
	- lei	38.085.045	34.830.756	67.385.400	91,46	193,47	176,93
5.	TOTAL OPERATING INCOME	1.220.014.804	1.342.933.371	1.404.364.126	110,08	104,57	115,11

The increase of the income generated by the natural gas transport activity was determined by the transported natural gas quantities higher than the one of 2010 by 5.127.529 MWh (513.980 thousand m³).

The decrease of incomes generated by the international transit of natural gas was generated by the USD and EURO exchange rates trend, taking into account the fact that the transit services payments in Turkey are collected in USD.

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 updated Articles of Incorporation. Transgaz is a company listed with Bucharest Stock Exchange, stock exchange symbol – TGN.

The structure of the share capital and the shareholders of Transgaz on December 31st, 2011 are presented below as follows:

Shareholders	Number of shares	Percentage
Ministry of Economy, Commerce and Business Environment	8.654.917	73,5097%
SC Fondul Proprietatea SA	1.764.620	14,9876%
Other shareholders – natural and legal persons (free-float)	1.354.307	11,5027%
Total	11.773.844	100%

- The number of shareholders of Transgaz registered with Depozitarul Central S.A. on December 31st, 2011 was 7,181, with 23 shareholders less than registered at the end of 2010, respectively 7,204 shareholders;
- The share capital of Transgaz on December 31st, 2011 was 117.738.440 lei and is divided into 11.773.844 nominative shares, each share having a nominal value 10 lei.

Transgaz did not carry out transactions having as an object its own shares and consequently at the end of the year 2011, the company did not own personal shares.

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.

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 Contract appendix to the Code of network for the natural gas transport system, approved through the order of the president of ANRE no. 54/December 13th, 2007, with its subsequent amendments and supplements.

1.1.b). Transgaz set-up date

Transgaz was set up in 2000, through the reorganisation of the former SNGN "Romgaz" SA, according to GD no. 334/28th April 2000, published in the Official Gazette of Romania, Part I, no. 194/04.05.2000.

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 2011.

1.1.d). Acquisition and alienation of assets

Except for assets used according to the purchase programme designed for the carrying out and development of the operations, as well as assets taken out of service under the law, the company recorded no other similar operations in 2011.

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 2011 financial statements was performed by the "PriceWaterhouse Coopers" (PWC) auditors.

1.1.1. General evaluation aspects

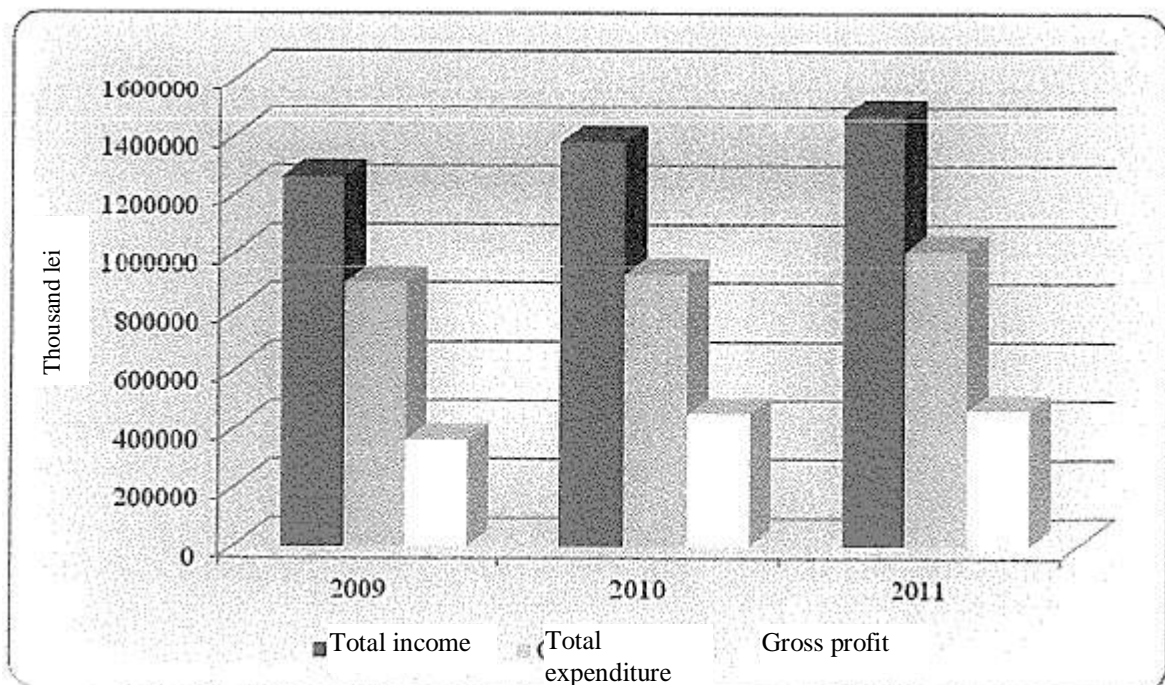
The 2009-2011 financial-economic activity of Transgaz was carried out based on the annual income and expenditure budgets indicators, approved by General Assembly of the Shareholders.

The main economic-financial indicators attained between 2009-2011 are presented in the table below:

No.	Indicator	MU	2009	2010	2011
1	Turnover	lei	1.187.350.293	1.312.997.932	1.343.321.806
2	Total income	lei	1.258.467.898	1.377.109.896	1.463.505.150
3	Total expenditures	lei	897.186.393	925.605.375	1.001.244.678
4	Gross profit	lei	361.281.505	451.504.521	462.260.472
5	Profit tax	lei	62.649.964	75.151.535	82.689.007
6	Net profit	lei	298.631.541	376.352.986	379.571.465
7	Transported gas	thousand cm	11.548.833	12.306.552	12.820.532
8	Investment expenditure	lei	364.456.298	410.156.951	128.136.313
9	Rehabilitation expenditure	lei	89.965.974	118.450.695	111.457.563
10	Technological consumption	lei	148.877.015	134.173.113	133.897.824
11	Technological consumption	thousand cm	301.721	283.775	278.577

The transport service carried out by Transgaz has a natural monopoly status in Romania and it transports approx. 90% of the total consumed natural gas.

Of the total incomes achieved in 2011, approx. 17% are achieved in foreign currency, of the international gas transit operations.



2011 results vs. 2010 results

The situation of the financial results reported on 31st December 2011 compared to the similar period of 2010 is presented in the table below:

thousand lei

No.	Name	Results 2010	Results 2011	Rates (%)
0	1	2	3	$4=3/2 \times 100$
1.	Income from the operating activity	1.342.933	1.404.364	104,57
2.	Financial income	34.177	59.141	173,05
3.	TOTAL INCOME	1.377.110	1.463.505	106,27
4.	Operating expenditures	899.269	961.793	106,95
5.	Financial expenditures	26.336	39.451	149,80
6.	TOTAL EXPENDITURES	925.605	1.001.245	108,17
7.	GROSS RESULT (row 3 - row 6) out of which:	451.505	462.260	102,38
	- from the operating activity	443.664	442.570	99,75
	- from the financial activity	7.841	19.690	251,12
8.	Profit tax	75.152	82.689	110,03
9.	NET PROFIT	376.353	379.571	100,86

The total income represents **106,27%** compared to the results of the similar period of 2010, an increase of **86.395 thousand lei**. The income was mainly influenced by:

- *the transported gas quantity* larger than in 2010 by 5.127.529 MWh (513.980 thousand cm), which had a positive influence of **38.009 thousand lei**;
- *the incomes from the international natural gas transit services*, which decreased by **9.133 lei** due to the decrease of the average exchange rate leu/USD in comparison to the exchange rate of the previous year;
- *the increase of other operating incomes*, by **32.555 thousand lei** determined mainly by the cashing in of fines and penalties;
- *the increase of the financial incomes* due to favourable differences between exchange rates, and interests by **24.965 thousand lei**;

The total expenditure is **108,17%** compared to the same period of 2010, an increase of **75.639 thousand lei**.

The operating expenditures achieved amounted to 106.95%.

The planned amounts were exceeded by 80.806 thousand lei were reported, among which for the following expenditure items:

- depreciation of fixed assets: **28.051 thousand lei**;

- ☞ personnel expenditures: **10.433 thousand lei**;
- ☞ the royalty for the concession of the national transport system: **2.888 thousand lei**;
- ☞ auxiliary expenses: **2.973 thousand lei**;
- ☞ other operating costs: **34.920 thousand lei**, mainly based on the reduction of the incomes generated by provisions following the decrease of the rhythm of cashing in the due receivables and the creation of the provision corresponding to the fund of the contribution of the employees to the profit for 2011.

Savings in the amount of 18.282 thousand lei were reported in comparison to 2010, mainly on the following expenditure items:

- Participation of the employees to profit: 7.808 thousand lei;
- Fee for granting transport license, dispatching and international natural gas transit: 5.802 thousand lei;
- Works and services carried out by third parties: 2.765 thousand lei;
- Technological consumption and losses in transport system: 275 thousand lei.

The gross profit reported for 2011 is higher than the one of the previous year by 10.756 thousand lei (2.38%), and the net profit by 3.219 thousand lei (0.86%).

2011 results vs. 2011 planned results

The synthesis of the financial results obtained on 31st December 2011 compared to the income and expenditure budget approved by GD no. 526 of 18th May 2011 is presented in the table below:

thousand lei

No.	Name	IEB 2011	Results 2011	Rates (%)
0	1	2	3	4=3/2x100
1.	Income from the operating activity	1.253.203	1.404.364	112,06
2.	Financial income	576	59.141	X
3.	TOTAL INCOME	1.253.779	1.463.505	116,73
4.	Operating expenditures	1.096.900	961.793	87,68
5.	Financial expenditures	12.684	39.451	311,03
6.	TOTAL EXPENDITURES	1.109.584	1.001.245	90,24
7.	GROSS RESULT (row 3 - row 6) out of which:	144.195	462.260	320,58
	- from the operating activity	156.303	442.570	283,15
	- from the financial activity	-12.108	19.690	X
8.	Profit tax	20.262	82.689	408,10
9.	NET PROFIT	123.933	379.571	306,27

The total income represents **116.73%** compared to the IEB planned results, there being an excess of **209.726 thousand lei**. The income was influenced by the following factors:

- *the transported gas quantity* was higher than planned in IEB with 16.556.919 MWh (approx. 1.708.532 thousand m³), with a 125.715 **thousand lei** positive influence;
- *the income from the international natural gas transit services*, which underwent a decrease of 11.435 thousand lei determined by the decrease of the average exchange rate leu/USD in comparison to the one provided in IEB;
- *the increase of other operating incomes* by 36.882 thousand lei determined mainly by the cashing in of fines and penalties;
- *the increase of the financial incomes* due to favourable differences between exchange rates, and interests by 58.565 thousand lei;

The total expenditure incurred at the end of the year is **90.24%** compared to the planned results, i.e. **108.340 thousand lei** lower.

The achieved operating expenditures represent 87.68% of the planned level.

Savings in the amount of 172.478 thousand lei were reported for the following expenditure items:

- Technological consumption and losses of natural gas in the transport system: 16.646 thousand lei, due to two factors:
 - The achieved quantity less than the planned one by 249.261 MWh with a positive influence of 12.235 thousand lei;
 - Average price of purchase achieved (47.52 lei/MWh) lower than the one provided (49.09 lei/MWh) by 1.57 lei/MWh with a positive influence of 4.411 thousand lei;
- Works and services carried out by third parties: 117.941 thousand lei, due to the delay of certain works due to the difficult collection of the agreement of the owners regarding the access to the land following the changes in the legislation regarding the carrying out, free of charge, by the licensees in the field of natural gas of the right of user and easement right over the land lots on which repair works are carried out and the change by ANRMAP of the procedures for validating the tenders;

- Material expenditure: 18.910 thousand lei following the failure to achieve the rehabilitation program;
- Staff expenses: 8.834 thousand lei;
- Other operating costs: 1.070 thousand lei (contributions corresponding to the gas quota, the cancellation of certain provisions based on the cashing in of due receivables for previous periods).

The total expenditure exceeded the planned value with **37.370 thousand lei**, mainly for the following:

- depreciation of fixed assets: 25.215 thousand lei.
- the royalty for the concession of the national transport system: 11.428 thousand lei.
- Expenses with other taxes and fees: 727 thousand lei.

The gross profit reported at the end of the year is 318.065 thousand lei (220.58%) higher than the planned profit, and the net profit is 255.638 thousand lei (206.27%) higher.

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

No.	Indicators	Calculation formula	2009	2010	2011
1.	Profitability indicators				
	a) EBITDA for total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	42,24%	45,10%	47,26%
	b) EBITDA for equity	$\frac{\text{EBITDA}}{\text{Equity}}$	21,22%	22,90%	19,46%
	c) Gross profit ratio	$\frac{\text{Gross profit}}{\text{Turnover}}$	30,43%	34,39%	34,41%
	d) Return on equity	$\frac{\text{Net profit}}{\text{Equity}}$	12,64%	14,55%	11,63%
2.	Liquidity indicators				
	a) Current liquidity indicator	$\frac{\text{Current assets}}{\text{Short-term debts}}$	1,42	1,57	1,92
	b) Quick liquidity indicator	$\frac{\text{Current assets} - \text{Inventories}}{\text{Short-term debts}}$	1,31	1,49	1,79
3.	Risk indicators				
	a) Degree of indebtedness indicator	$\frac{\text{Borrowed capital}}{\text{Equity}}$	1,76	3,04	2,21
	b) Times interest earned	$\frac{\text{EBIT}}{\text{Interest expenditures}}$	29,57	83,66	50,87
4.	Activity indicators				
	a) Debit turnover ratio - customers	$\frac{\text{Average customer balance} \times 365 \text{ days}}{\text{Turnover}}$	98,74	97,18	102,55
	b) Credit turnover ratio - suppliers	$\frac{\text{Average supplier balance} \times 365 \text{ days}}{\text{Turnover}}$	38,90	37,09	39,15

		Turnover			
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1.1.2. The main activities performed by the company

Transgaz achieves incomes based on the following activities:

The natural gas transport activity which is regulated by NARE through:

- The decision ANRGN no. 1078/2003 regarding the approval of the criteria and methods for the approval of the prices and establishing the tariffs regulated in the sector of natural gas;
- The decision ANRGN no. 311/2005 regarding the approval of the additional documents for the application of the criteria and methods for the approval of the prices and establishing the tariffs regulated in the sector of natural gas, approved via Decision of ANRGN no. 1078/2003;
- The decision ANRGN no. 339/2004 regarding the approval of the periods regulated for the depreciation of the tangible and intangible assets.

The evolution of the transport tariffs during the analyzed period is indicated in the table below:

Running No.	Order of the regulatory authority	Date when it is applied	Tariff for transport services		
			Volumetric component (lei/MWh)	Component regarding capacity reservation for permanent services (lei/MWh/hour)	Component regarding capacity reservation for interruptible services (lei/MWh/hour)
0	1	2	3	4	5
1.	Order of ANRE 72/26.06.2008	July 1st, 2008	6,89	0,18	0,14
2.	Order of ANRE 76/27.08.09	September 1 st , 2009	7,50	0,22	0,17

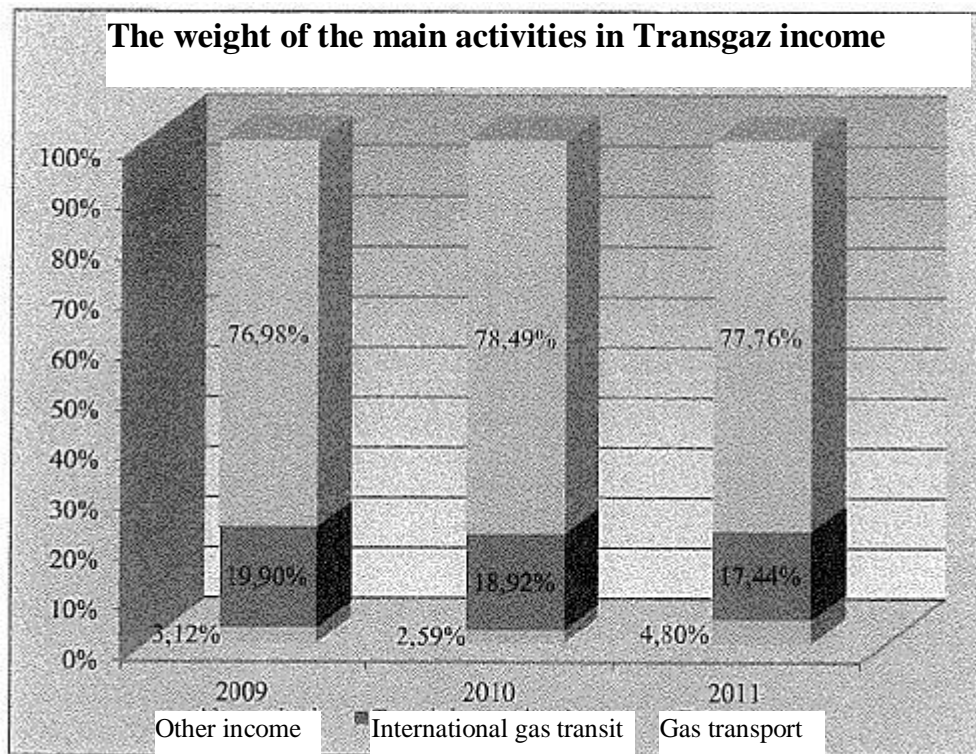
According to Decision ANRGN no. 1078/200, the regulated income should have been adjusted starting with July 1st, 2010, but through the Order of ANRE no. 18 of June 24th, 2010 the validity period of the ANRE Order no. 76 of 27.08.2009 was extended "*until a new regulated income is established*". Although Transgaz submitted to ANRE the substantiations regarding the adjustment of the regulated income and the transport tariffs for the last two years of the actual regulating period (July 1st, 2010 – June 30th, 2011, respectively July 1st, 2011 – June 20th, 2012), according to the applicable methodology, ANRE has not yet approved the adjustment, without submitting Transgaz any explanation, and this is why a suit has been filed against ANRE.

The international natural gas transit activity is still a gas transport operation but because it is carried out through dedicated pipes which are not interconnected with the national transport

system (NTS), it is not considered a regulated activity, and the transit tariffs have been established on commercial basis through negotiations between the parties.

Other activities which contributed to the company's turnover (sales of assets, rents and royalties).

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



Natural gas transport services

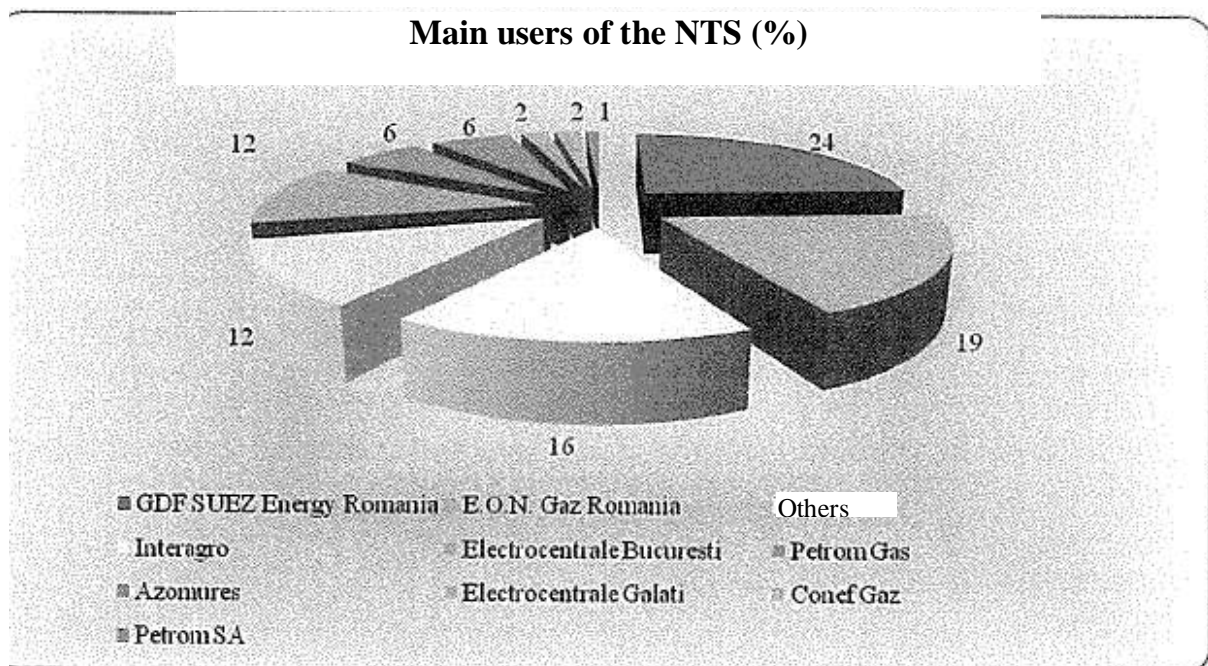
The main activity of Transgaz is represented by the reservation of the transport capacity and the transport of of the established quantities of natural gas through the NTS. This activity is performed at the commercial delivery/take over points upon entering the SNT until the points of commercial delivery/take over upon exiting the SNT, *the natural gas necessary for covering the losses in SNT representing the responsibility of Transgaz.*

In 2009, through the contracted transport services for that year, the total gas quantity of 136.133.151 MWh (12.820.532 thousand m³) was carried out, the reserved capacity in this sense being of 40.441 MWh/hour (3.811 thousand cm³/hour).

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

- *licensed distribution companies and suppliers, 47%;*
- *licensed natural gas supply companies, 29%;*
- *eligible consumers, 23%.*

The weight of the main beneficiaries of the transport service is presented in the following chart:



In order to cover the consumption and the technological losses of SNT, in 2011, Transgaz purchased a quantity of **2.817.624 MWh (278.577 thousand m³)** of natural gases from SNGN "Romgaz" SA Medias.

According to the provisions of the Order of ANRE no. 2/January 20th, 2011 regarding the approval of the level of the stock of natural gas corresponding to SNTGN "Transgaz" SA article 3 paragraph (1), **212.000 MWh (20.000 thousand m³)** of natural gas were purchased and stored into the underground tanks in order to ensure the balance of the system and the exploitation under safe conditions of such.

International natural gas transit service

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

This activity is carried out on the basis of three contracts concluded between Transgaz and Bulgargaz EAD (Bulgaria), respectively Gazprom Export (Russian Federation).

The legal framework for the conclusion of the contracts is based on the following inter-governmental agreements:

- The convention regarding the construction of a pipe on the territory of the Socialist Republic of Romania to ensure the gas transit from U.S.S.R. to the Socialist Republic of Bulgaria, signed on November 29th, 1970;

- The cooperation agreement in the energy sector concluded on October 29th, 2002 between the Ministry of Energy and Energy Resources in Bulgaria and the Ministry of Industry and Resources in Romania;
- The convention between the governments of S.R.R. and U.S.S.R. regarding the transit on the territory of S.R.R. of the natural gas from U.S.S.R. to Turkey, Greece and other countries, signed on December 29th, 1986;
- The Convention between the governments of Romania and the Russian Federation regarding the extension of the capacity of the natural gas transit pipes on the territory of Romania, for increasing the deliveries of natural gas from the Russian Federation to third countries and in Romania, signed on October 25th, 1996.

The conventions concluded with the Russian part were denounced via GD no. 1278/27 December 2011, based on the provisions of article 351, paragraph 2 of the Treaty regarding the operation of the European Union.

The validity period of the three contracts is as follows:

- Contract no. 10.726 of 19th October 2005, concluded with Bulgargaz EAD Bulgaria, valid until 31 December 2016;
- Contract no. 2102-06 of 3 June 1987 valid until 31 December 2011, extended until 31 December 2012 through the Addendum signed with the Russian part on 16 December 2011;
- Contract no. 643/00157629/210247 of 24 September 1999, valid until 31 December 2023.

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

1.1.3. Evaluation of the purchasing activity

The purchases for ensuring the technical and material basis are made under firm contracts or orders, concluded by observing the applicable laws, both for the internal and the external market.

1.1.4. Evaluation of the sales activity

- Transgaz is the single operator for the transport of natural gas in Romania. The table below indicates the evolution of the transport and transit services performed for the period 2009-2010.

Run ning no.	Specifications	Achievements (lei)			Dynamics (%)		
		2009	2010	2011			
0	I	2	3	4	5=3/2*	6=4/3*1	7=4/2*1

					100	00	00
1.	Revenues generated by the transport activity	939.194.107	1.054.013.720	1.092.023.204	112,22	103,61	116,27
2.	Revenues generated by the transit activity	242.735.652	254.088.896	244.955.523	104,68	96,41	100,91

The NTS natural gas transport activity carried out by Transgaz involves over 9% of the natural gas consumed in Romania. Therefore, we can state that:

- there is no competition in the field;
- it does not 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

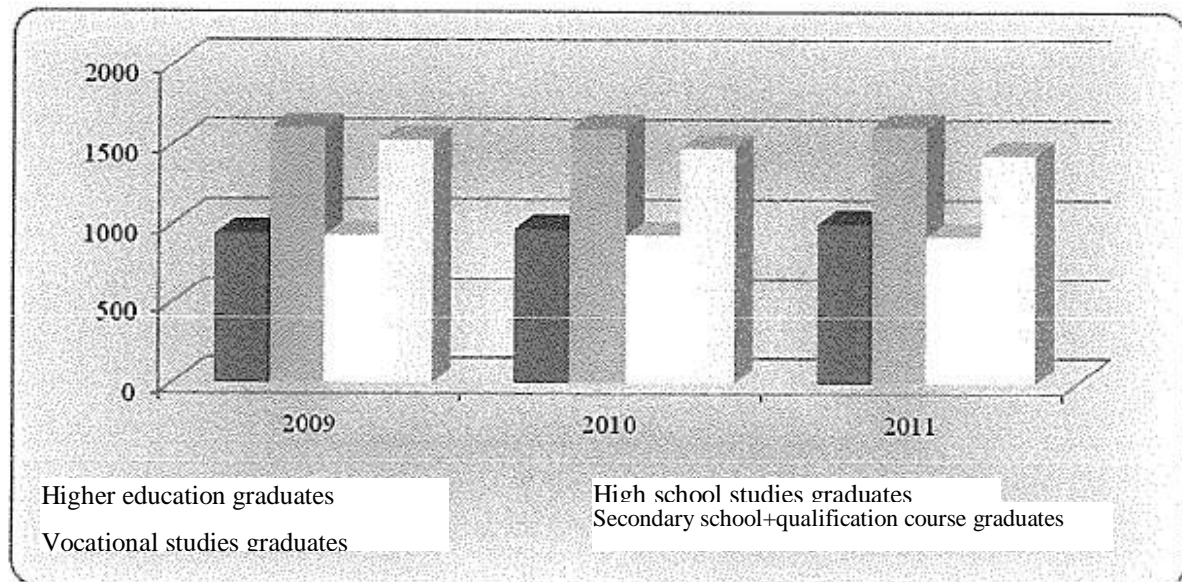
On 31st December 2011, Transgaz had 4.962 employees with an individual labour contract, of which 4936 for an unlimited period of time and 26 for a limited period of time.

During 2009 – 2011, the number of company employees evolved as presented in the following table:

No.	Specification	2009	2010	2011
0	1	2	3	4
1	Number of employees at the beginning of the period	5.022	4.990	4.970
2	New employees	77	108	114
3	Employees who terminated their labour contract	109	128	122
4	Number of employees at the end of the period	4.990	4.970	4.962

The personnel evolution according to study categories, as presented in the table below, reflects the company's interest in covering personnel needs by hiring highly-qualified specialists.

No.	Specification	31.12.2009	31.12.2010	31.12.2011
0	1	2	3	4
1	University graduates	940	968	1.001
2	High-school graduates	1.602	1.596	1.605
3	Vocational school graduates	926	929	922
4	Secondary school + qualification course graduates	1.522	1.477	1.434
5	TOTAL employees	4.990	4.970	4.962



As regards employee continuous training and specialisation in 2011, the company organised professional and specialisation training courses delivered by in-house trainers for 1.382 employees, for jobs specific to the business activity of the company. During the same period 643 employees took part in training courses delivered by external trainers.

On 31st December 2011, 98,83% of the labour force was part of a trade union (4.904 employees out of 4.962 were trade union members). Transgaz employees are members of 4 trade unions, namely the following:

- 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 employer 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 employer and the employees complies with the legal provisions in force. No associated conflicts were reported in 2009.

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

It is described under point 6 in the Appendix to the Report of the directors regarding Corporate Governance.

1.1.7. Evaluation of research and development activity

The Scientific Research, Technological Innovation and Standardization Program of Transgaz for 2011 was structured based on six topics, respectively:

I. The rehabilitation, modernization and increase in the safety of the natural gas transport system;

- II. Implementation of new processes and technologies according to EU requirements;
- III. Measuring the natural gas flows;
- IV. Environmental and labour protection;
- V. Standards, norms, regulations, technical provisions, work procedures in the field of natural gas;
- VI. Increase of reliability and flexibility of the national natural gas transport system by making the supply sources more diverse.

Within this six topics mentioned above, 20 research topics requested by the Operation, Exploitation, Development, and Design and Research departments were included.

Among these topics for research, 10 were topics which were carried out during the period 2008-2010, while the other 10 represents new topics for 2011.

In order to complete these topics, the Research program for 2011 proposed 28 stages to be completed, representing research works amounting to 5.347.395 lei.

Among the 28 stages of the research work mentioned above, the Design and Research Department carried out until the end of 2011 5 stages amounting to 350.000 lei while the external collaborators carried out 8 stages amounting .408.514 lei and contracted 6 stages, to be completed in 2012, amounting 990.100 lei.

The works carried out by the Design and Research Department during 2011 solved problems regarding the following:

1. Establishing the consumption profiles for the adjustment and measurement stations to deliver from SNT for the purpose of setting the methodology of determining such (3-West System);
2. The possibility of using the device for the automatic provision of reference pressure of the pressure regulators;
3. The odourisation norm for the natural gas in SNT;
4. Reducing the noise in the natural gas compression stations;
5. Adopting 8 standards within the natural gas transport field.

The works carried out by third parties during 2011 solved problems regarding the following:

1. Implementation and use of a risk-based management system through the analysis of the existing conditions in comparison to the necessary ones;
2. The theoretical analysis of the transport capacity of the national transport system (SNT), based upon a computer model of SNT, developed for this purpose (Ploiești Petroleum-Gas University);
3. Making the demonstrative design for the collection and storage of carbon and drawing up the application in order to be granted European financing (SC ISPE SA Bucharest);

4. The creation of an experimental model (pilot system) for the production of electricity on the basis of the potential renewable energies (wind and solar energy) (National Institute for Research-Development and Trials for Electrotechnics ICMET – Craiova);

5. Drawing up norms and applying work procedures regarding the use, the production and the installation of T-type fittings or a sleeve on the natural gas transport pipes which are under pressure (Ploiești Petroleum-Gas University);

The works contracted by third parties, during 2011, to be completed in 2012 shall solve problems regarding the following:

1. Reduction of corrosion of the pipes by carrying out intensive measurements and validation of software programs (Cluj-Napoca Technical University – UT);

2. Analysis and assessment of the real capacity of transport of the national transport system and the transport capacities in the entry and exit points of such, based upon the computer model of the national transport system (Ploiești Petroleum-Gas University);

3. Developing the prototype of a device for the automatic setting of the reference pressure of the pressure regulators, functional testing and the homologation of such (The National Institute of Research and Development in Mechatronics and Measurement Technique INCDMTM – Bucharest);

4. The review of the technical norms regarding the design and the execution of the uphill supply pipes and for the transport of natural gas (Ploiești Petroleum-Gas University);

5. The assessment of the major projects in the field of the natural gas transport in Romania (Neculai Pavlovschi-Individual Enterprise Mediaș).

According to the "Scientific Research, Technological Innovation and Standardization Program of SNTGN TRANSGAZ SA for 2012" approved through the decision of the Board of Directors no. 2/January 27th, 2012, the research-development expenses for 2012 amount to 4.273.983 lei.

The research topics proposed to be achieved are as follows:

> Research regarding the zero system concerning the existing technological regimes in comparison to their theoretical simulation for the purpose of:

- Identifying the areas with increased hydraulic local resistances;
- Determining the demand and the opportunity of mounting gas compression stations and adapting such to the existing technological parameters;
- Ensuring safe operation based upon a predictive control model;

> Studies regarding the setting of the methods meant to avoid the risks associated with the exploitation of the natural gas transport systems;

> The study of the corrosion of the pipes of the natural gas transport system, which are under the influence of the overhead electrical lines which have high voltages of over 100 kV and methods for reducing such;

> Studies and research regarding the national transport system for the purpose of:

- Assessing the transport capacity, the heritage and the gas stored within the system based on the simulation of the technological flows, taking into account the actual configuration and the actual technical operating status of the system;
 - Evaluating the consumption profiles for the adjustment and measurement stations to be delivered;
 - Identifying the difficult situations and emergency situations within the system and implementing feasible methods of avoiding such;
- > The study of the possibility of creating devices for the remote automatic setting of the reference pressures of the gas pressure regulators existing within the national transport system for the purpose of upgrading and integrating such within the control mechanism of the natural gas transport process;
 - > The assessment of the construction and functional characteristics of the closing and adjustment (valve/actuator) systems used within the national transport system from the point of view of their reliability, proactive maintenance and safe exploitation;
 - > Research regarding the influence of the operating parameters (p,T,Q) of the natural gas within a transport pipe upon the level of humidity of gases and existing free water in the pipe;
 - > Studies regarding the identification, evaluation and capitalization upon the recoverable energy potential within the natural gas transport process at the level of the national transport system;
 - > Studies and research regarding the use of the nonconventional energy sources for the supply of electricity of the equipment and the existing technological systems within the national transport system;
 - > Research regarding the assimilation of electrical microgenerators triggered with pneumatic motors, on natural gas, meant for the supply with electricity of the own systems within the adjustment and measurement stations and the technological joints;
 - > The study of the possibilities of maintaining the precision of measuring the natural gas flow within the thresholds imposed through the existing instruments within the adjustment and measurement stations and the technological joints of the national transport system;
 - > New solution for the reduction of noise with the natural gas compression and transport stations;
 - > Procedure for checking the measuring systems which use turbine meters and/or ultrasound meters, having the maximum flow of over 2,500m³/h;
 - > Technical provisions regarding the safety distances and ensuring the acceptable risk level with the operational pipes;
 - > Technical provisions and work procedures for ensuring the quality of the process for the odourisation of the natural gas within the national transport system;
 - > Technical norms regarding the design and the execution of the uphill supply pipes and transport pipes for the natural gases;
 - > Procedure for checking the precision of the gas analysers used within the national transport system for determining the temperature of the dew point;

> Procedure and specialized computer products for the design of the natural gas transport;

> Study regarding the assessment of the major design within the field of natural gas transport in Romania from the perspective of its impact upon the energy security, of the increase of competitiveness on the energy market and of ensuring sustainable development.

1.1.8. Evaluation of Transgaz activity regarding the financial risk management

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.

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.

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.

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.

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.

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.

1.1.9. An outlook on the activity of Transgaz

Evolutions regarding the Nabucco project:

The Nabucco project started for the purpose of connecting and benefiting from the important natural gas reserves in the area of the Caspian Sea and Middle East (Iraq, Egypt), to the European Markets. Project Nabucco was included in Romania's 2007-2020 energy strategy, chapter IV "Energy field development objectives and measures for their accomplishment".

The Nabucco project was initiated in order to attain this objective, with the participation of five industry companies: BOTAS, Boru Hatlari Iile Petrol Tasima AS - Turkey, Bulgarian Energy Holding EAD - Bulgaria, SNTGN Transgaz SA - Romania, MOL, Magyar Olaj-Es Gazipari Rt. -Hungary and OMV Gas & Power GmbH - Austria.

In 2008, the signing of the documents related to the joining of a new shareholder took place, the RWE Gas Midstream company from Germany.

The operations regarding the implementation of the project are carried out through the company Nabucco Gas Pipeline International GmbH (NIC) having its office in Vienna and its 5 subsidiaries entirely owned by NIC, one such subsidiary in every transited country.

The participation of the 6 shareholders of NIC is equal, each holding (16.67%) of the shares of such.

For the purpose of supporting the implementation of the Nabucco Project, on June 8th, 2011, in Kayseri, in Turkey, Project Supporting Agreements (PSA) were signed between the authorities of the states transited by the Nabucco pipe, on the one hand, and the company Nabucco Gas Pipeline International GmbH together with the National company Nabucco in every state, on the other hand.

On this same date, the first meeting of the Nabucco Committee took place, Committee created according to the provisions of the Intergovernmental Agreement (IGA).

Through the Governmental Decision no. 1083/2011, the Nabucco Interdepartmental Committee was created, representing an internal structure whose main objectives are the following: Tracking the carrying out of the project and discussing any aspects regarding the implementation of such (including solving certain problems), making

proposals and substantiating certain decisions made regarding the support of the project.

In November 2011, MOL Magyar Olaj-És Gázipari Rt.- Hungary transferred its shares owned in NIC to FGSZ Földgaszállító Zártkörűen Működő Részvénytársaság, a subsidiary 100% owned by MOL.

The consortium Shah Deniz II requested from the three gas pipe projects (Nabucco, ITGI and TAP) the submission of offers for the export of natural gas to Azerbaijan. At the end of September 2011, the company Nabucco sent a package of detailed information. Subsequently, periodical meetings took place between the company Nabucco and the Consortium Shah Deniz II. According to the project Shah Deniz II, Azerbaijan would supply Europe with a quantity of 10 billion cubic metres of natural gas per year via one of the three pipes which shall be selected in the beginning of 2012.

The Nabucco project is strategically important for all the states involved and for the investors and its importance was recognised by the Community bodies by including such within the TEN (Trans European Networks) by the European Commission program and also by allotting non-reimbursable funds via the European Energy Recovery Plan (EERP).

One of the conditions for obtaining such non-reimbursable funds via EERP (200 million Euros) was the conclusion by NIC by the end of 2010 of certain contracts for the purchase of basic equipment and the payment of such contracts by mid-2011. Because this deadline could not be observed, the representatives of NIC sent a letter to the European Commission by which it requested the extension of the deadline of offering that grant. In this sense, during February, a meeting shall take place for the purpose of discussing in detail the status of the project and implicitly the possibility of extending the period regarding the provision of this grant.

According to the financing mechanism adopted by the shareholders consisting in classic increases of the share capital (respectively the amounts transferred by the shareholders following the cash demands coming from NIC are registered as direct contribution to NIC share capital), at the end of 2011, NIC share capital increased amounting to 92.666.700 Euros (15.444.450 Euros/shareholder), as it results from the certificate confirming the company details issued by the Commercial Court of Vienna on October 11th, 2011.

Technical aspects

The works for the design of the Nabucco pipe in all the countries transited by such are being currently carried out. In Romania, the local design works are ensured by the

Association made up of S.N.T.G.N. TRANSGAZ S.A. Mediaş, S.C. PETROSTAR S.A. Ploieşti and S.C. GAZPROIECT S.A. Braşov.

Up to this moment, the works for the confirmation of the route of the Nabucco pipe as well as the topographical, geological and hydrological surveys have been finished. The Urban-planning certificates have been obtained in the five counties transited by the Nabucco pipe (Dolj, Mehedinţi, Caras-Severin, Timiş and Arad). At the same time, the procedure for assessing the impact upon the environment was launched.

The progress of the design operations in Romania is approx. 70%.

Economic aspects

Taking into account the fact that the financing of the project shall be carried out based on drawn sources (credits) and own sources, on September 6th, 2010, the shareholders of Nabucco signed a letter of mandate with the European Investment Bank, European Bank for Reconstruction and Development and IFC – member of World Bank Group. The signing of this letter of mandate marks the start of the process of assessing the Nabucco process, a stage necessary for the purpose of obtaining a potential financing package of up to 4 billion Euros.

Regarding Transgaz, since it is considered that it does not fulfil the minimum conditions required by the banks concerning the creditworthiness, it shall have to submit warranties for the part corresponding to the credits and for the equity part.

Taking into account the status of company mainly owned by the state, TRANSGAZ shall need governmental guarantees which should cover both the part of own capital and the part corresponding to the credits contracted by NIC. Currently the financial, fiscal and legal consultants of NIC agreed together with the shareholders on a version of the documentation regarding the entire concept of guaranteeing credits contracted by NIC and own capital with which the shareholders should contribute to the financing of the Nabucco project during the construction period. This documentation is to be submitted to the relevant authorities for the purpose of obtaining a point of view regarding the content presented.

Legal aspects

For the purpose of ensuring an optimal framework for the implementation of the project, the representatives of NIC, together with the representatives of the local company Nabucco Gas Pipeline România SRL (NNC Romania) in collaboration with the representatives of the relevant authorities have drawn up a "Bill regarding certain measures corresponding to the development works of the natural gas pipe corresponding to the Nabucco Project". This initiative practically focuses upon one of the commitments of the Romanian State, according to which such has undertaken the obligation of "ensuring the entire cooperation of all the relevant authorities on its

territory and carry out all the actions necessary so that the Nabucco Project could be fulfilled" (Articles 11 and 3.2 in the Interstate Agreement, respectively Law no. 57/2010).

The status of the process of selling the share package representing 15% of the company capital

The Governmental decision no. 827/04.08.2010 marked the approval of the sale through methods specific to the capital market (secondary public offer) of a share package representing 15% of the share capital of Transgaz, managed by the Minister of Economy, Commerce and Business Environment (MECMA). According to the provisions of article 2, paragraphs (1) and (2) of Governmental Decision no. 827/2010 and of the laws specific to the capital market, MECMA via OPSPI (Office of State Participation and Privatisation in Industry) proceeded to the selection of the intermediate which shall carry out the secondary public offer (SPO) for the sale of Transgaz shares.

The intermediate selected in the "Intermediation Union" made up of RAIFFEISEN CAPITAL&INVESTMENT (RCI) - lead manager, WOOD&COMPANY FINANCIAL SERVICES (Wood) and BT SECURITIES (BT). The subcontractors for the carrying out of the financial, legal and operational due diligence are the following: Schoenherr si Asociații (SA), BDO Business Advisory (BDO) and Darian DRS (Darian).

According to the intermediation contract no.3/01.02.2012 signed between MECMA via OPSPI and the Intermediation Union, the schedule undertaken by the intermediate for the SPO process is a very tight one (10 weeks from signing the contract).

As Issuer, Transgaz has the legal obligation of providing all the information and the documents necessary for the drawing up of the documents regarding the secondary public offer and acting responsibly regarding its obligations for ensuring the investors that the financial information which shall be included in the statement of offer observes the principle of accuracy, precision, reality and transparency.

Transgaz has taken all the necessary measures in order to fulfil the obligations which it should undertake in a very short period of time, and here are some of them:

- > appointing a commission for the coordination of the SPO process;
- > contracting the services for opening a virtual data room for the submission of documents, data and information in an operative manner;
- > organization of work meetings on a weekly basis or whenever it is necessary.

Up to this moment, Transgaz provided promptly and responsibly over 90 % of the data requested through the initial check-lists for the legal, financial and operational due diligence and through the 6 additional lists.

The status of transposing the Directive 2009/73/EC into the national legislation

The Directive 2009/73/EC of the European Parliament and of the Council of July 13th, 2009 regarding the common norms for the internal market in the natural gas sector and for the cancellation of Directive 2003/55/EC imposed a new legal regime regarding the separation, establishing three models, namely:

1. separation of property (OU) – the ownership over NTS should belong to the transport system operator (TSO);
2. the independent system operator (ISO) – the property regime may be:
 - a. public, owned by the Romanian state;
 - b. private, owned by the Romanian state;
3. The independent transport operator (ITO) - the ownership over NTS should belong to ITO.

Regarding the process of transposing the Directive into the national legislation, a transposition which should have taken place on March 3rd, 2011, the member states have the freedom of choosing a certain model, function of the specific aspects of each.

Both the European Commission (COM) and Transgaz have supported and substantiated the selection for Romania of the OU model, a model that mainly implies the following:

- > transfer of the assets which make up the national transport system (NTS) into the ownership of Transgaz and
- > transfer under the coordination of another minister, of the companies which carry out production activity, or of Transgaz.

In the case of this model, the owner of the transport network acts as system and transport operator, carrying out among others, its tasks. Concerning investments, the owner of the transport system is responsible, by planning the investments, for ensuring the long term capacity of the system in order to fulfil the reasonable gas demands.

Regarding the ISO model, the representatives of the Commission have underlined the following aspects which are part of the content of the Directive:

- > ISO is appointed upon the proposal of the system owner;

> the Member State may approve and appoint an ISO only if the candidate operator was certified by the national authority for the regulation and after being granted the permit from CE.

Concerning the tasks of ISO, it acts as a transport system operator (TSO), and it should observe the tasks of the latter which he should undertake according to the Directive.

Regarding investments, ISO should guarantee the long term capacity of the system in order to fulfil the reasonable gas demands by planning the investments. At the same time, it is responsible for planning, building and commissioning of a new infrastructure.

Regarding the financing of the network, the owner of the network should in principle finance the investments (approved by the national regulatory authority) decided by the transport system operator. If the owner of the network does not wish to finance the investments, it shall have to agree the financing of the investments by any interested party, including TSO. In this event, the owner of the network cannot become the owner of the new extensions of the network which it did not finance.

At the same time, the owner of the network should offer financial guarantees in order to facilitate the financing of the new extension of the network.

If this model is selected, both the activity of the national regulatory authority and that of the owner of the network shall be much more complex due to the obligations which they should undertake regarding the financing, provided in the Community legislation.

And concerning this model, Transgaz which shall act as a TSO shall have to be coordinated by another minister.

The Commission also underlined the fact that the Member States which intend to adopt the ISO or the ITO model should also include in the national legislation the provisions regarding the separation of property taking into account the fact that they cannot prevent a vertically integrated company, owner of a transport system, from complying with the applicable provisions in the event of a total separation of the property.

By analysing the provisions of the Directive, of the interpretative notes of the Commission and of the Information graphics of the Permanent Representation of Romania to EU, and taking into account the specific aspects of the situation in Romania and the recommendations of the Commission, Transgaz considers that the separation model which Romania should choose is the one of separating the property (OU).

The most important arguments which support the selection of the OU are as follows:

1. Ensuring an increased flexibility at least concerning the investment and decommissioning of certain components which are part of NTS (without the need to issue certain Governmental decisions), by transferring the assets which make up NTS into the property of Transgaz;

2. The transfer the assets of NTS into the property of Transgaz would facilitate the access of the company to financing sources and would lead at the same time to the increase of the trust of the shareholders and the investors, this having an impact upon the increase in the price of the shares and, respectively, the value of the company;

3. Avoiding additional obligations and complicated procedures which the choice of the model ISO might imply, obligations/procedures which should be observed/applied both by the owner of the network (ANRM), and the regulatory authority (ANRE), of which we mention the following:

a. obligations/procedures which should be observed/applied by the owner of the assets (ANRM):

> it proposes the appointment of ISO. The appointment of such is subject to the endorsement of the European Commission;

> it fully ensures the cooperation and support necessary for ISO for the purpose of fulfilling its obligations, providing all the relevant information;

> it finances the investments decided by ISO and approved by the national regulatory authority or agrees that such be financed by any interested party, including the ISO;

> it is responsible for the assets of the network, except for the liability regarding the tasks of ISO;

> it offers warranties in order to facilitate the financing of possible extension of the network, except for the investments which it approved to be financed by any interested party, including by ISO;

b. obligations/procedures which should be observed/applied by the national regulatory authority (ANRE):

> it monitors together with the competent authority in the field of competition, he observance by the owner of the assets of the obligations mentioned above.

Since according to the provisions of article 9 paragraph (1) letter a) of Directive 2009/73/EC, starting on March 3rd, 2012 "*all the enterprises who own transport systems act as transport operators and system operators*", Transgaz underlined the need to own the assets which make up the NTS.

Up to the date of the report herein, no decision has been made yet regarding the model which Romania shall implement.

The infringement proceeding initiated by the European Commission in 2009 against Romania due to the breach of certain provisions of the (EC) Regulation no. 1775/2005

On November 24th, 2011, the European Commission adopted the decision of filing with the European Court of Justice an action whose object was the infringement by Romania of certain provisions of the (EC) Regulation no. 1775/2005 regarding the conditions of accessing the natural gas transport networks.

The action represents in fact a continuation of the infringement proceeding initiated by the European Commission against Romania in 2009.

A part of the problems mentioned in the Notice of delay sent to Romania in 2009 have been solved, a fact supported by the content of the Reasoned opinion communicated by the Commission in 2010.

The recent decision of notifying the Court of Justice of the European Union was based on the opinion of the Commission according to which Romania – despite the progress made in eliminating deficiencies – is not compliant with the European requirements regarding the following:

- > making available at the interconnection points the reversed flow capacity ("backhaul") and, related to such, the possibility of interrupting the services for a short while;
- > issuing the information regarding the available capacity.

In fact, the two problems refer to the point Negru-Vodă, located on the natural gas transit pipes.

During the period 2010-2011, both Transgaz, and ANRE, MECMA, MAEur and MAE made several efforts in order to solve these problems, such as:

- > a series of discussions with other transport companies (in Poland and Hungary) regarding the manner in which they approached the problem of the gas transit problems in the Russian Federation;
- > the participation in a bilateral reunion with the representatives of the Commission for the identification of the possibilities of renegotiating with Bulgaria and the Russian Federation the conventions which regulate the regime of the transit activity in Romania for the natural gas in the Russian Federation for Bulgaria and respectively for Turkey, Greece and Macedonia;
- > the participation in a dialogue regarding the infringement procedure between MECMA Romania and the Ministry of Economy, Energy and Tourism of Bulgaria;

- > the drawing up by Transgaz and submission to ANRE of a proposal regarding the setting of a transport tariff for the line I (transit Romania- Bulgaria);
- > the participation to a session of bilateral consultations between the representatives of MECMA Romania and Ministry of Economy, Energy and Tourism of Bulgaria;
- > the organization of a bilateral reunion between the Ministry of economy, commerce and business environment of Romania and the general manager of the Directorate-General for Energy in the European Union;
- > the drawing up by Transgaz and the submission to ANRE of a proposal regarding the methodology of allotting of capacity for the Isaccea and Negru Vodă points corresponding to the line I (transit Romania-Bulgaria);
- > the approach – first, via diplomatic means – of the Russian Federation for the purpose of initiating the procedures for the negotiation of new conventions which should regulate the transport of the Russian natural gas in Romania, Conventions which should be compliant with the requirements of the European legislation;
- > the initiation of discussions between SNTGN Transgaz SA and ANRE regarding the backhaul mechanism (including the capacity which can be interrupted and the short term services);
- > the denunciation – in December 2011 - by România of the two Conventions signed in 1986 and 1996 with the Russian Federation regarding the transit of Russian gas through Romania (transit lines 2 and 3), conventions whose expiry dates are December 31st, 2016 and December 31st, 2015, respectively.

The above mentioned actions were based on a multi-layered approach of the problem of the infringement proceeding, focusing first of all on the compliance with the European laws of the procedures applied for line I (transit Romania- Bulgaria), respectively ensuring the access of the third parties to this pipe (application of a regulated tariff; the application of a method for allotting a capacity approved by ANRE; issuing of information regarding the available capacity).

Following such measures, the Directorate-General for Energy within the European Commission proposed the postponement of the proceeding initiated with the Court of Justice of the European Union.

Transgaz is currently undertaking a series of discussions with the companies Bulgargaz and Bulgartransgaz for the purpose:

- Of renegotiating the commercial contract concluded in 2005 between Transgaz and Bulgargaz (corresponding to the line 1 of transit) in the sense of ensuring the confirmation of such with the provisions of the European legislation;

- Of negotiating and concluding with Bulgartransgaz an operating agreement and an agreement for the allotment of capacity for the interconnecting point Negru-Vodă 1 (corresponding to line 1 of transit).

For the negotiations with the Russian Federation regarding the conclusion of a new Convention corresponding to lines II and III of transit for the purpose of making these comply with the European legislation, we consider that the combined efforts of all the authorities and even that of the European Commission are necessary.

The failure of Transgaz to observe the requirements of the EU regarding transparency was due to the existing clauses in the applicable commercial contracts concluded with Bulgargaz and respectively with Gazprom Export and the provisions of Gas Law no. 251/2004, with the subsequent amendments and supplements, regarding the natural gas transit.

An outlook regarding the international operations 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 these end, the following significant activities were carried out during 2011:

- Collaboration with the representatives of the European Commission within the initiative of the interconnections on the direction North-South, initiative launched by the Commission for the purpose of integrating the natural gas transport networks in the Central and East European area. The countries targeted by this initiative were Poland, Czech Republic, Slovakia, Hungary, Romania and Bulgaria. Following the activity of the work group of this initiative, the activity carried out in 2011 and in which our company also took part, the European Commission and the relevant ministers in the targeted countries, an action plan was drawn up which should include both the priority projects which the TSO propose for the purpose of integrating the gas transport networks in the area and the measures necessary to be implemented in order to facilitate the carrying out of these infrastructure projects (legislative and regulatory measures). This action plan represents a data base for the legislative package regarding the energetic infrastructure, which is currently analyzed by the European Commission. The implementation of the provisions within the action plan shall be monitored during the following years:

- Continuation of the cooperation with the representatives of the European Commission and the representatives of EAD Bulgartransgaz for the purpose of

implementing the project for interconnecting the natural gas transport systems of Romania and Bulgaria on the direction Ruse - Giurgiu, a project co-financed through the program EEPR of the European Commission;

- Continuation of the cooperation with Moldovagaz and the relevant minister in the Republic of Moldova for the purpose of implementing the project for interconnecting the natural gas transport systems of the two countries by building a pipe on the direction Bălți - Ungheni - Iasi;

- Within ENTSOG, the most important activities in which our company also took part were the completion of the network code regarding the methods of allotting the capacities for the transport of natural gas and the drawing up of the regional development plans. The network code regarding the method for allotting the capacities for the transport of natural gas was completed, and after its approval within the meeting of the ENTSOG General Assembly in March, it shall be official transferred to the European Commission in order to launch the comitology process for the purpose of obtaining the approval from the European Council and the European Parliament;

Concerning the regional development plans, according to the applicable European legislation, the TSO should draw up such plans every two years. Transgaz took part in the drawing up of two regional development plans, the one for the Central and East European region as well as the one for the South region. The first plan was completed, approved and published, while the second one is to be approved and made public in March 2012. The regional development plans shall underlie the review of the development plan for the following 10 years of the European natural gas transport network;

- The further carrying out of proper collaboration relations with the companies involved in carrying out the transit activity for the Russian natural gas in the Balkan area; In this context, the efforts necessary for solving the aspects in the existing contract which are opposite to the Community laws and for which the European Commission launched the infringement procedure for multiple EU countries, including Romania, have been initiated;

- The active participation during the year together other representatives of MECMA within the inter-governmental mixed work groups, which the Romanian Government promotes in the energy sector with other countries such as: Turkey, Bulgaria, the Russian Federation, etc.

A large part of the actions described above shall also be continued in 2012, when Transgaz intends to be involved in the activity of the relevant bodies and organization and strengthen the cooperation relations with all the actors involved on the European energy market.

Chapter 2. TRANSGAZ TANGIBLE ASSETS

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

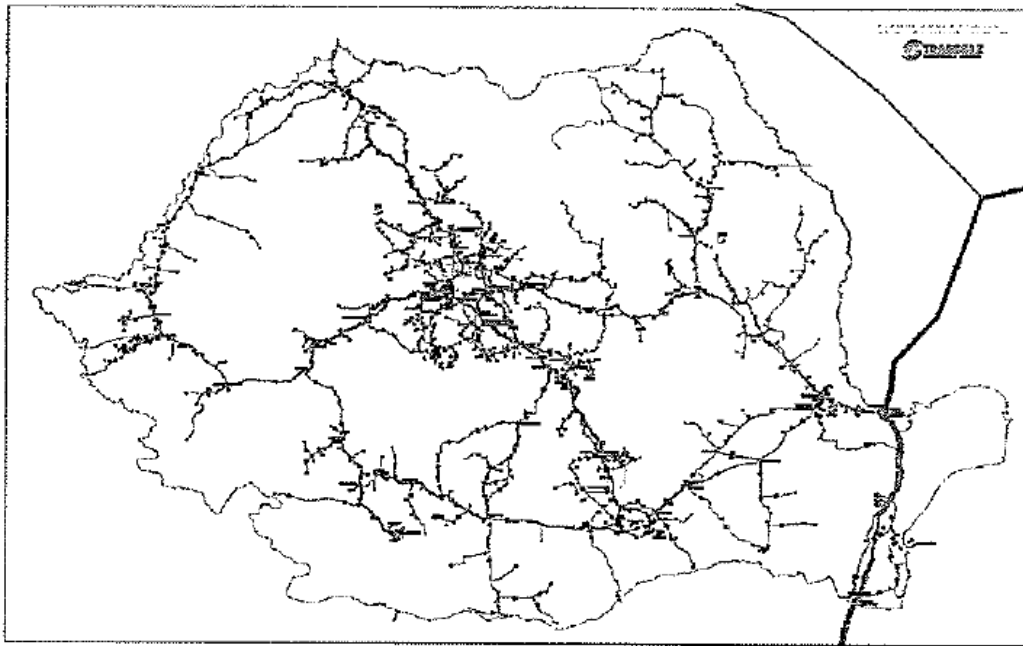
The main components of the National Natural Gas Transmission System are:

No.	NTS unit/component name	MU	Value
0	1	2	3
1	Main transport pipelines and natural gas supply joints	km	12.970
2	Operating adjustment-measurement stations (SRM)	pcs	1.102 (1.222 measurement directions)
3	Valve command stations (SCV, NT)	pcs	22
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	998
8	Gas odourisation stations (SOG)	pcs	766

The reduction of the length of the national transport system in 2011 in comparison to 2010 was determined by the fact that the pipe passed from the public domain of the state and the ANRM administration into the private domain of the state of the type of the fixed assets transferred to Transgaz, via Governmental Decision no. 1146/November 16th, 2011.

The length of the pipes included in Appendices 3 and 4 of the decision mentioned in of 562.4 km.

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

Transgaz operates assets belonging to the State's public domain. According to the provisions of Law no. 213 of 17th 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 regarding the national transport system.

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	4.885	219	119
2	Between 30 and 40 years	2.631	170	62
3	Between 20 and 30 years	1.339	197	70
4	Between 10 and 20 years	929	459	421
5	< 10 years	1.359	782	550
6	TOTAL	11.143	1.827	
		12.970		1.222

As it can be noticed, out of the 12.970 operating km of natural gas transport pipelines, approx. 71% have a very long actual period of operation, close to their normal period of operation. The diagnosis performed with an intelligent PIG shows that there is a high degree of wear and tear of the tubes, caused mainly by the technical state of the active insulation, which for 80% of the system pipelines is made of bitumen. Currently, the insulation is old and deteriorated, which may lead to an increase in the electricity consumption recorded by the 998 cathodic protection stations.

The gas delivery to the distributors and final consumers is ensured through the 1.222 SRMs, out of which 65% consist of physically and morally worn out equipment. This equipment cannot insure the safety conditions required by the new regulations and cannot be integrated in a SCADA automated control and monitoring system without rehabilitation/modernisation works. Out of the 1.222 operating SRMs (consumption points), 948 are considered for the implementation of the SCADA system.

The reduced transport parameters (flow, pressure) and the existing measurement systems within these SRMs sometimes lead to high measurement uncertainties.

The compression capacity is ensured by 5 gas compression stations, located on the main transport axes. They are equipped with installations and devices manufactured in the '70s, physically and morally worn out. In many cases, they fail to attain the performances imposed by the transport parameters. In 2011, rehabilitation/modernisation works were executed at the Sinca compression station (stage 2).

The dispatching of gas in the NTS is performed by various manoeuvres and in the interconnection joints of the main pipelines. These joints are mainly equipped with

manual control cocks and parameter monitoring equipment, most of them being outdated from the point of view of performance and operating safety.

Gas odourisation is performed through a number of 766 odourisation installations, out of which 497 centralised "evaporation" systems. These systems cannot ensure continuous and controlled odourisation and therefore may lead to under or overpressurisation situations, so implicitly to increased consumption of odorant. The other 269 systems are new. Through sampling and injection, they ensure an optimum odourisation of transported gas. Of the 269 modern systems, 15 are of centralized type, servicing multiple delivery points.

Even if the fixed assets basis is quite old, the real technical status of the NTS is at an adequate level, due to the fact that the operation is carried out on the basis of an appropriate preventive, planned and corrective maintenance schedule and modernization programs based on the Technical norms regarding the maintenance of the national transport system.

Performance of the NTS repair works, rehabilitation and maintenance programme

The 2011 maintenance programme is presented below:

Chapter A. NTS REPAIR AND REHABILITATION WORKS (lei)				
No.	Chapter name	Scheduled 2011	Results 2011	%
0	1	2	3	4=3/2*100
1	Scheduled repairs of main pipelines	177.300.000	92.010.230	51,90
2	Rehabilitation of Adjustment-measurement stations (SRM)	0	40.000	X
3	Rehabilitation of technological joints	0	0	0,00
4	Rehabilitation of compression stations	2.000.000	2.006.086	100,30
5	Repair of special constructions associated with the SRM and SCV	3.500.000	1.785.992	51,03
6	Rehabilitation of cathodic protection stations (SPC)	900.000	778.684	86,52
7	Repairs and TC equipment	0	0	0,00
8	Repair of buildings	2.600.000	3.865.623	148,68
	TOTAL WORKS	186.300.000	100.486.615	50,72

Chapter B. NTS MAINTENANCE ASSURANCE SERVICES (lei)				
No.	Chapter name	Scheduled 2009	Results 2009	%
0	1	2	3	4=3/2*100
1	Repair and maintenance services for gas compression aggregates	12.400.000	6.048.402	48,78
2	Repair and maintenance services for mechanical and special installations of SRMs, SCVs	2.850.000	561.774	19,71
3	Repair services for machinery sub-assemblies, machines, work installations, measurement and control devices	2.100.000	955.028	45,48

4	Repair services for gas measurement systems	3.200.000	2.069.019	64,66
5	Pipeline diagnosis services	5.000.000	2.032.886	40,66
6	TI maintenance services	6.400.000	4.080.000	63,75
7	Other services	7.750.000	3.747.304	48,35
TOTAL SERVICES		39.700.000	19.494.413	49,10
TOTAL WORKS+SERVICES		226.000.000	119.981.028	50,43

The amount of the repair and rehabilitation works carried out based on own financing is 6.7 million lei while the scheduled value of such was 4 million lei.

The value of the program for the repair, rehabilitation and ensuring the NTS maintenance for 2011 amounted to 230.000.000 lei, while at the end of the year the achievements amounted to 126.663.372 lei, representing a fulfilment of the program amounting to 55.07% within such achievements being included mainly the repair works of 20.4 km of pipes, the rehabilitation of 38 km of pipes and various repair works for compression assemblies, special constructions and pipe diagnosis operations, etc.

The defaults of the repair program are mainly due to the following:

- It is difficult to carry out the repair and rehabilitation works of the gas transport pipes due to the change in the legislation regarding the application free of charge by the licensees in the field of natural gas of the right of user and easement right over the land lots on which repair works are carried out, due to the fact that the land owners are against the execution of works, requesting in addition to the indemnities concerning the damages produced (affected crops) the value of the land lots, taking into account their depreciation following the implementation of the protection and safety area for the pipes, imposed by the relevant technical norms. In this context, in addition to the fact that the value of the expenses rises, the execution works are to be interrupted and new actions are to be filed with the courts of law with the land owners, and this is why the deadlines for completing these objectives are postponed;
- The postponement of the deadlines for drawing up the technical designs due to the difficulties encountered in being granted the agreements by the land owners and, consequently, the failure to timely issue the construction permits;
- The change by ANRMAP of the procedures for validating the tenders which has led to delays in carrying out works and services scheduled and, respectively, the postponement of the completion deadline for such;

2.2.3. The investment programme

- ✎ The investment activity is mainly focused on the development, and modernisation of NTS maintenance and aims at increasing the system's efficiency, operating safety and development of new consumption areas.

The scheduled value of investments in 2011 was 183.000 thousand lei, the value of the achievements being 128.136 thousand lei, which also includes the 30.385 thousand

lei used for the NTS connection installations executed based on the NTS access regulation approved through GD no. 1043/2004.

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

	Scheduled	Results
▪ Investments	183.000	128.136
- systems for connecting to NTS	-	30.385
▪ Reimbursement of loans for investments	47.683	48.164
TOTAL EXPENSES	230.683	176.300

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

	Scheduled	Results
▪ Net profit allocated for own financing	6.197	29.182
▪ Depreciation	138.969	72.233
▪ Bank loans:		44.500
▪ NTS connection tariff		30.385
▪ Other sources (European funds)	34.855	217.460
TOTAL FINANCING SOURCES	180.021	176.300

We mention that the in draft version for the income and expenses budget for 2011 endorsed by the Board of Directors through Resolution no. 18 of November 26th, 2010 and sent for approval to MECMA, the amounts in the net profit meant for the financing of the investments have been established in the context of the distribution of the profit under the form of dividends with a level of 50%. The budget approved via Governmental Decision no. 526 of May 18th, 2011 was based on the distribution of 90% of the net profit under the form of dividends, thus substantially reducing the sources of financing the investments. This reduction was not applied appropriately on the investment expenses so that the approved income and expense budget includes an inconsistency between the investment expenses and the financing sources of such, respectively a deficit of **50.661 thousand lei**.

The results of the 2011 modernisation, development and investments programme are presented in the table below:

Chapter	Works category	Scheduled 2011		Results 2011		(%)
		Physically (km)	Value (lei)	Physically (km)	Value (lei)	
0	1	2	3	4	5	6=5/3*100
Cap.A	NTS modernisation and development works	27,50	164.500.000	43,56	56.492.872	30,34
1	Modernisation and revamping of the National Gas Transport System		144.500.000		10.779.203	7,46
1.1.	Modernisation of NTS associated technological installations (SRM, SCV, PM, NT)		17.500.000		7.581.789	43,32
1.2.	Supervisory Control and Data Acquisition System		127.000.000		3.197.414	2,52
2	Development of the National Natural Gas Transmission System	27,50	20.000.000	43,56	45.713.669	228,57

	and associated installations					
2.1.	Natural gas transport pipelines	22,50	14.100.000	38,56	33.051.732	234,41
2.2.	Interconnection pipelines	5,00	2.500.000	5,00	6.979.067	279,16
2.3.	NTS joints and technological installations		3.400.000		5.682.870	167,14
Cap.B	Own assets modernisation and development works		18.500.000	0,00	11.611.374	62,76
1	Modernisation of buildings		1.000.000		160.383	16,04
2	Other works		1.800.000		844.053	46,89
3	Independent machinery		13.700.000		8.850.613	64,60
4	Expenditures for studies and transit projects		2.000.000		1.756.325	87,82
Cap.C	NABUCCO Project				27.050.960	X
Cap.D	Works executed according to RGD 1043 - NTS Access Regulation			8,00	30.385.142	X
	TOTAL A + B + C	27,50	183.000.000	95,74	95.155.206	52,00
	TOTAL A + B + C + D	27,50	183.000.000	131,74	125.540.347	68,60
	Other fixed assets increases				2.595.965	
	TOTAL INVESTMENTS		183.000.000		128.136.313	70,02

In comparison to the scheduled value of 183.000.000 lei, the total amount of the achievements is 128.136.313 lei, representing a fulfilment of the program of 70,02%.

The defaults of the repair program are mainly due to the following:

- With STC Sinea – the works at the technological system for the second compression line could not be initiated because it was not possible to interrupt the operation of the compression station;
- For the modernisation of the SRMs with flows $Q > 10.000$ Nmc/h (new works) – with SRM Buhoci, the land necessary for the location of the SRM was purchased with delay after several rounds of negotiations with the land owner, a fact which has led to the delay in the deadline for completing the scheduled works. Craiova East SRM (Bordei) is being designed, and the approval of the owner for the purchase of the land necessary for locating such has not yet been granted, while PM Butimanu is undergoing the tender process;
- For the modernisation of STC Siliştea, SMG Isaccea 1 and SMG Negru-Vodă 1 (reverse flow) following the decision of the Board of Directors no. 14/2011, the purchase of materials and equipment is discontinued as the works corresponding to STC Siliştea and SMG Isaccea 1. The works scheduled with SMG Negru-Vodă 1 are undergoing the tender stage;
- Concerning the SCADA system, due to the change in the directions of the gas flows through the national transport system, it is necessary to establish again the size of the measurement lines of the technological joints and the update of the stages of carrying out the project according to the requirements of the "Network Code";
- For the Plătăresti - Bălăceanca pipe – there are problems regarding the collection of the construction permit due to the differences with the land owners, and that is why the execution works are suspended;

- For the Biharia - Alesd pipe – currently out of the total of 44 km 38 km have been executed, and the execution works are still interrupted until the settlement of the actions filed with the court of law with the land owners who do not allow the execution of works on their land. The suits have been pending before the court of law for 2 years.

In 2011, investment objectives amounting to **162.196.890** lei have been commissioned, of which we mention the following:

- Modernisation of SRM Blaj;
- Modernisation of SRM Iași;
- Modernisation of SRM Turnu Măgurele;
- Modernisation of SRM Galați (measurement lines);
- Modernisation of SRM Drăgășani;
- Measurement panel STC Danes;
- Modernisation of SRM Blaj;
- Natural gas transport pipe ϕ 10" Negru Vodă - Techirghiol;
- Natural gas transport pipe ϕ 28" Filipești - Butimanu – partial acceptance 17 km;
- Natural gas transport pipe ϕ 16" Hârlău - Bucecea – partial acceptance 14.7 km;
- Systematization of Onești technological joint.

Accessing the Community funds

The money cashed in from non-reimbursable European funds in 2011 amounted to 7.809.219,80 Euro, of which:

- For the work "Interconnecting pipe Dn 700x6,3 Mpa for the natural gas transport system in Romania and the West European system in the direction Szeged-Arad", the amount of 7.500.022,72 Euros has been cashed in for works and 2.697,08 Euros for the external audit;
- For the project "Ensuring the reversible flow of gas on the transit pipe dedicated to Bulgaria", the pre-financing application was drawn up and an advance payment of 306.500 Euros was granted, representing 20% of the value of the estimated eligible costs.

2.3. Mentioning the potential problems regarding the ownership right over the tangible assets of Transgaz

Illegal registrations with the Land Registry were carried out on the land corresponding to the office of the Brașov Territorial Exploitation and SRM Brașov by the following:

Stoia Gabriela, Turcu Ioan and his wife, Acojocăritei Marcela, residing in Braşov, SC "Nesland" SA Braşov and SC "District" SRL Braşov. Transgaz owns the above mentioned land based on the legal titles of administration, respectively Decision no. 1752/1963 issued by Braşov People's Council and Order no. 134/1990 issued by the Ministry of Agriculture and Food. Transgaz requested before the administrative court the change of the Land Registry no. 12933 Braşov, the acknowledgement of the invalidity and the cancellation from the Land Registry of the subsequent documents regarding the land lot corresponding to the office of Braşov Territorial Exploitation and SRM Braşov. The litigation is the object of the file no. 10232/197/2011 which is pending before the Braşov Court of law. Status of the suit: court of first instance.

Chapter 3 THE MARKET OF SECURITIES ISSUED BY TRANSGAZ

Being a dynamic company capable of adjusting its operations to the requirements of the current national and international context within which it carries out its activity, Transgaz has succeeded in achieving good results on the capital market, being today, 4 years after its listing with the Stock Exchange, the fifth company in top 100 companies listed with the Bucharest Stock Exchange, function of their capitalization.

The TGN share is an appealing portfolio share due to the business area of the company, the position held by the company on the national and international market, the strong financial profile and the capacity of Transgaz of achieving performance, stable and predictable incomes and the quality of the company management activity.

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

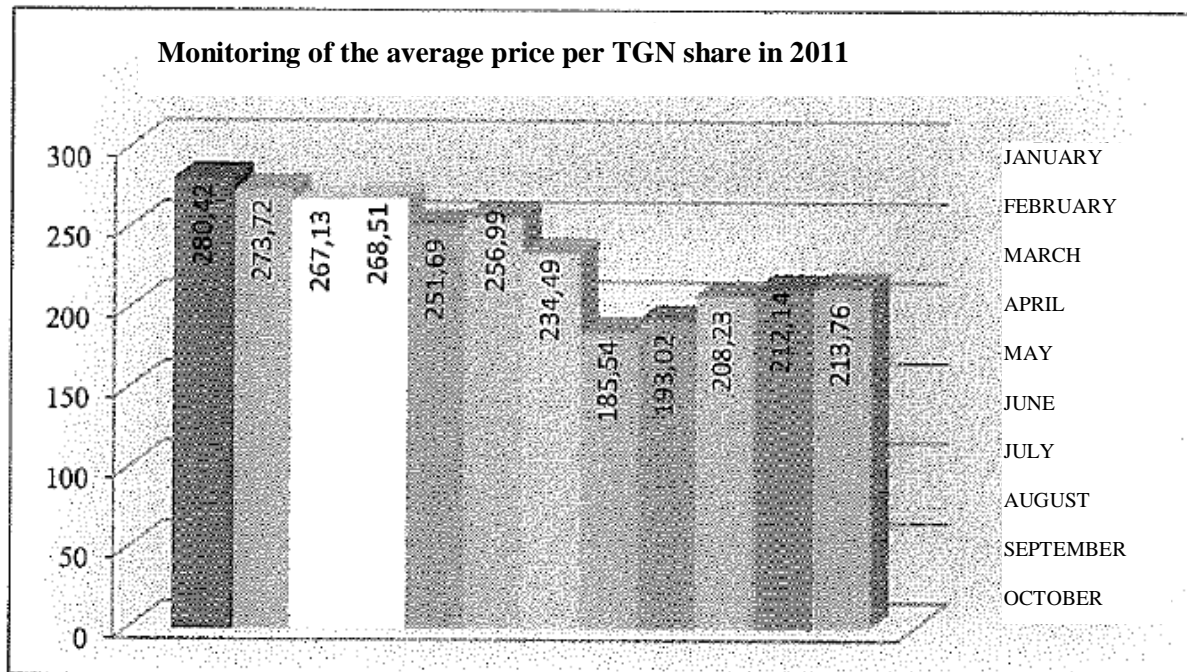
The transactions of TGN shares at the BVB are defined by the following coordinates: **TGN** symbol; ISIN Code **ROTGNTACNOR8**; BVB section - **category I, main market REGS**.

A short presentation of Transgaz activity in 2011, in its capacity of issuer of securities on the capital market in Romania, illustrates the following aspects:

- a number of 246 trading sessions, where TGN titles were traded in 16.655 transactions, which means an average of 68 transactions/day.

- the total volume of traded TGN shares increased during the first half of 2011, and then it reached a historical minimum value in December 2011, with 14.639 traded shares;
- the traded TGN value in 2011 was 128.885.366,90 lei. During the first part of the year, this increased slightly and then it underwent a dramatic decline, reaching in December 2011 an amount of 3.129.207,15 lei;
- the average price /TGN share has a maximum value of 280.42 lei/share in January and then a gradual decline followed, the minimum value being 185.54/share in August;
- the graphic representation of the average price per TGN share in 2011 is as follows:

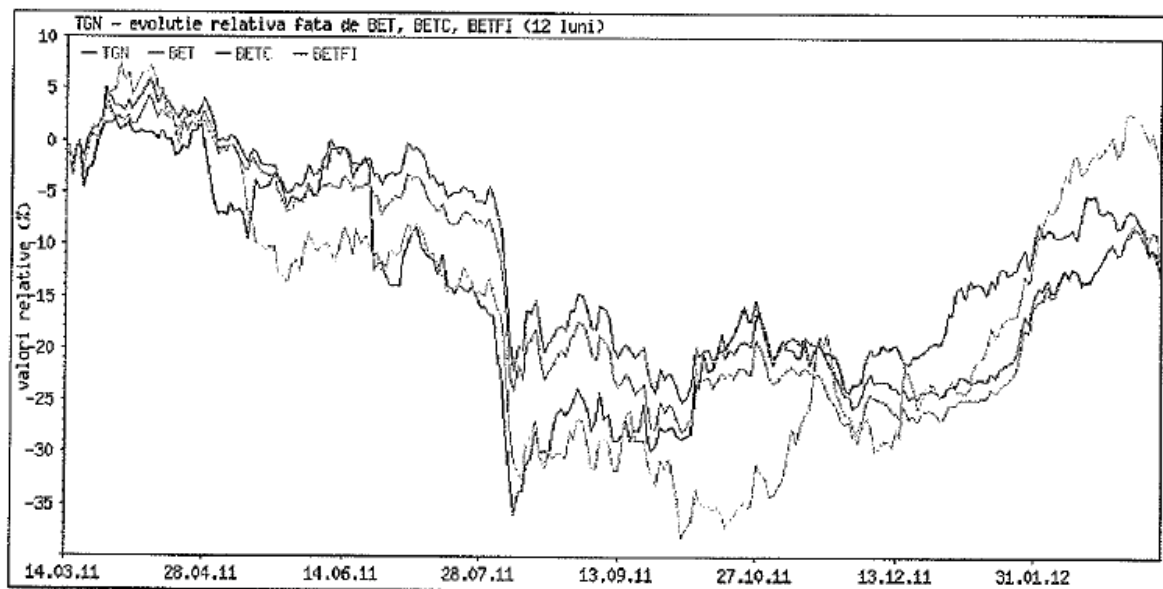
No.	Month	Volume	Transaction value (lei)	Average price (lei/share)
0	1	2	3	4=3/2
1	JANUARY	38.708	10.854.569,45	280,42
2	FEBRUARY	34.898	9.552.140,95	273,72
3	MARCH	92.627	24.743.466,10	267,13
4	APRIL	47.797	12.833.835,75	268,51
5	MAY	82.197	20.688.443,90	251,69
6	JUNE	60.162	15.460.957,70	256,99
7	JULY	17.254	4.045.886,70	234,49
8	AUGUST	60.659	11.254.840,20	185,54
9	SEPTEMBER	20.477	3.952.520,65	193,02
10	OCTOBER	35.068	7.302.210,50	208,23
11	NOVEMBER	23.886	5.067.287,85	212,14
12	DECEMBER	14.639	3.129.207,15	213,76
13	TOTAL	528.372	128.885.366,90	242,93



- during the year 2011, the stock exchange capitalisation followed a downward trend reaching from an amount of 3.29 billions lei in the beginning of the year an amount of 2.62 billion lei on the last trading day of 2011, with a decline of 79.63%.

Expressed in Euros, the above mentioned figures represent a stock exchange capitalisation in the beginning of 2011 of approx. 769.4 million Euros (exchange rate of the National Bank of Romania: 4.2848 lei/Euro), and in December 2011, the amount was 608.7 million Euros (exchange rate of the National Bank of Romania: 4.3197 lei/Euro).

Evolution of the TGN shares in comparison to the stock exchange indicators of BVB (Bucharest Stock Exchange)



- Starting from the second half of 2011, the evolution of the TGN share was over the evolution of the most efficient BETFL indicator.
- During the last part of 2011, the trend of the TGN share was supported above the BET and BETC indicators, confirming the strength and performance of Transgaz.

3.2. Description of the Transgaz dividend policy

The value of the dividends which should be offered to the shareholders is determined according to the Government Ordinance no. 64 of August 30th, 2001 regarding the appropriation of the profit with the national companies, national enterprises and the trading companies which are entirely or mainly owned by the state as well as the autonomous administrations approved via Law no. 769/2001, with its subsequent amendments and supplements, which provides under article.1 paragraph (1) letter f) the appropriation of the accounting profit remaining after the deduction of the profit tax of "at least 50% ...dividends for the national companies...entirely or mainly state owned". For 2009, dividends amounting to 50,024% were allotted.

Through derogation from the provisions of article 1 paragraph (1) letter f) of the Government Ordinance no.64/2001 according to the Emergency Ordinance no. 55 of June 23rd, 2010 regarding some of the measures meant to reduce the public expenditure for the financial year 2010, with the national companies, national enterprises and trading companies entirely or majority state owned, the accounting profit remaining after the deduction of the profit tax is distributed up to at least 90% under the form of dividends.

The appropriation of dividends for 2010 took into account the provisions of the ordinance no.55/2010 and it was carried out up to 90%.

For 2011, the executive management of Transgaz substantiated and submitted for analysis and endorsement to the Board of Directors the income and expenses budget observing the provisions of GEO no.64/2001, respectively the appropriation of the net profit under the form of dividends up to 50%. The Board of Directors analyzed and endorsed, via Decision no.18 of November 26th 2010, the budget submitted by the executive management of the company. According to GEO no.37 of March 26th, 2008, article 15, (1) which states that "The income and expenses budgets of the economic operators entirely or majorly state owned which under the supervision, coordination, the authority or the portfolio of the ministries, ...it is approved through the governmental decision initiated by the main credit release authority, with the approval of the Ministry of Economy and Finance and the Ministry of Labour, Family and Equal Opportunities through letter no. F1049 of November 29th, 2010, Transgaz submitted to MECMA the budget endorsed by the Board of Directors for the purpose of supporting the governmental decision for the approval of such.

Nonetheless, the income and expenses budget approved via GD no.526 of May 18th, 2011 provided the appropriation of the net profit under the form of dividends amounting to 111.540 mii lei, representing approx. 90% of the budget profit to be appropriated, thus substantially reducing the financing sources of the investments.

Taking into account certain changes occurring in the first semester of 2011 regarding the hypotheses taken into account for drawing up BVC 2011, the executive management of Transgaz substantiated and submitted for analysis and endorsement to the Board of Directors the proposal for the correction of the income and expenses budget proposed for 2011, approved via GD 526/2011. For the substantiation of the adjusted budget, the observance of the provisions of GEO no. 64/2001, respectively the appropriation of the net profit under the form of dividends amounting to 50% were taken into account. The Board of Directors analyzed and endorsed, via Decision no.15 of July 15th, 2011 the adjusted budget submitted by the executive management of the company which was submitted via letter no. F627 of July 18th, 2011 to MECMA for the purpose of supporting the governmental decision for the approval of such. However, the proposal for the adjustment of the income and expenses budget was not been approved.

Taking into account the above mentioned aspects, the appropriation of the net profit under the form of dividends took place according to the provisions of GEO no. 64/2001, with its subsequent amendments and supplements, amounting to 350.390 thousand lei, larger by 267.191 thousand lei in comparison to the provisions of the approved budget (111.540 thousand lei).

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 2009-2011 is the following:

Ru nni ng no.	Specifications	UM	2009	2010	2011 (proposal)
1	Allocated	lei	306.439.866,00	376.352.986,00	389.258.615,00

2			298.631.541,00	376.352.986,00	379.571.465,00
3	Dividends		153.295.448,88	338.733.491,88	350.389.597,44
4	Percentaje dividends *in the net profit regathered **in the net profit	% %	50,02 51,33	90,00 90,00	90,01 92,31

3.3. The intent of Transgaz of purchasing own shares

Transgaz does not intend to purchase own shares.

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

Not applicable.

3.5. Debentures and/or other debt securities

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 2011:

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. **COSMA EMIL FLORIN** **member of the Board of Directors** - appointed by Order of the Ministry of Economy, Commerce and Business Environment no. 1689/15.09.2010 – present day
3. **BUSUIOC MIHAI** **member** - appointed by Order of the Ministry of Economy, Commerce and Business Environment 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. **TRUTA OANA** **member** - appointed by Order of the Ministry of Economy, Commerce and Business Environment no. 8222/20.04.2011, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 29.04.2011 – 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 (see the Appendix to the Report of the Directors regarding the Corporative Governance)

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

According to the information supplied by the directors, there is no agreement or family relationship between the person in question and another person by whose influence the person in question was appointed director.

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

Not applicable.

4.1.d). List of companies in which Transgaz owns participations

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. Nabucco project was included in the energy strategy of Romania for the period 2007-2020 under chapter IV "The objectives of developing the energy sector and the estimated measures for achieving such";

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 (J40/15189/1994) of which Transgaz owns 68,16 % of the share capital; its object of activity is the production and marketing of refractive aluminosilicate products. The company is undergoing the bankruptcy procedure according to Directive no. 41/107/2005 on the dockets of the Alba Court of law, the Commercial department.

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 – until 1 October 2011
5	Florea Vasile	Manager	Operation Department – until 1

			October 2011
6	Barbu Viorel	Manager	Development Department
7	Lata Ilie	Manager	Exploitation Department
8	Chis Ioan	Manager	Human Resources Office – until 1 December 2011
9	Mates Angela	Manager	Accounting Office
10	Pavlovschi Vlad	Manager	Research and Design Department
11	Mohan Aurel	Manager	Quality, Environment, Prevention and Protection Office
12	Ghidiu Elisabeta	Manager	Strategy and Corporate Management Office
13	Mates Angela	Manager	Accounting office – until 1 December 2011
14	Marin Dumitru	Manager	Budget, Financing Office
15	Stoia Gheorghe	Manager	Information Technology and Communications Office
16	Paraschiv Nelu	Manager	Training, Works Execution Office
17	Rău Ioan	Manager	Exploitation, Maintenance Office
18	Florea Vasile	Manager	Commercial Balance Centre – until 1 October 2011
19	Cosma Radu	Manager	Commercial Balance Centre – until 15 November 2011
20	Sai Alexandru	Manager	Natural Gas Measurement, Quality Office
21	Pătărnice Mihai	Manager	National Natural Gas Dispatcher Office
22	Stoia Gheorghe Marius	Manager	Gas Market Operator Office
23	Bunea Florin	Deputy manager	Gas Market Operator Office
24	Muntean Aurel	Deputy manager	Natural Gas Measurement, Quality Office
25	Lascu Sergiu	Deputy manager	Information Technology and Communications Office
26	Novac Mircea	Chief engineer designing	Designing and Research Office
27	Moisin Ioan	Chief engineer research	Designing and Research Office

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

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

According the the information available, there is no agreement, understanding or family relationship between the persons in question and another person by whose influence the persons in question become members of the executive management team.

The list of Transgaz executive management members, including regional operating centres which own Transgaz shares is presented below:

No.	Last name and first name	Position/Department/ Office	No. of shares on 31.12.2012	Participation quota (%)
1.	Rusu Ioan	General Deputy Manager	2.508	0.02130
2.	Moldovan Radu	Manager / Financial Department	149	0.00126
3.	Lata Ilie	Manager / Exploitation Department	46	0.00039
4.	Stoia Gheorghe	Manager / Information Technology and Communications Department	5	0.00004
5.	Florea Vasile	Manager / Commercial Balance Department	14	0.00012
6.	Paraschiv Nelu	Manager / Preparation Work Execution department	9	0.00007
7.	Sai Alexandru	Manager / Natural Gas Measurement, Quality Department	10	0.00008
8.	Pătârniche Mihai	Manager / National Natural Gas Dispatcher Office	97	0.00082
9.	Nită Viorel	Manager / E.T. Craiova	5	0.00004

4.3 Possible litigations or administrative procedures

Litigations or administrative procedures which have taken place during the last 5 years regarding the administrative and executive management as well as those regarding their capacity of fulfilling their tasks within Transgaz – not applicable.

Chapter 5 FINANCIAL-ACCOUNTING STATEMENT

5.1. Balance sheets items

The situation of balance sheet items for 2009-2011 is the following:

lei

Indicator name	31.12.2009	31.12.2010	31.12.2011	Dynamics (%)		
				4=2/1	5=3/2	6=3/1
0	1	2	3			
Intangible assets	496.083.02 2	497.791.43 2	11.296.624	100,34	2,27	2,28
Tangible assets	2.441.455.964	2.731.187.567	3.323.009.903	111,87	121,67	136,11
Financial assets	19.180.6 69	46.091.817	68.480.438	240,30	148,57	375,03
Fixed assets	2.956.719.655	3.275.070.816	3.402.786.965	110,77	103,90	115,09
Inventories	34.955.150	27.654.123	43.247.769	79,11	156,39	123,72
Receivables	245.303.57 7	333.719.05 8	366.868.98 5	136,04	109,93	149,56
Short term financial investments	0	171.851.40 7	255.607.04 6	x	148,74	X
Cash at bank and in hand	196.566.26 5	25.755.236	19.154.501	13,10	74,37	9,74
Current assets – TOTAL	476.824.99 2	558.979.82 4	684.878.30 1	117,23	122,52	143,63
Pre-payments	1.340.71 9	1.540.86 1	1.371.95 4	114,93	89,04	102,33
Debts: amounts to be paid within one year's time	336.853.78 7	357.177.87 4	358.127.19 4	106,03	100,27	106,32
Current assets, respectively net current debts	140.114.54 0	203.263.32 6	327.978.59 6	145,07	161,36	234,08
Total assets minus current debts	3.096.834.195	3.478.334.142	3.730.765.561	112,32	107,26	120,47
Debts: amounts to be paid in more than one year's time	527.448.77 7	564.224.72 2	75.147.643	106,97	13,32	14,25
Provisions	31.286.516	31.249.312	42.427.376	99,88	135,77	135,61
Advance income	175.927.54 8	296.513.31 8	350.457.04 3	168,54	118,19	199,21
Capital and reserves						
Subscribed and paid up share capital	117.738.44 0	117.738.44 0	117.738.44 0	100,00	100,00	100,00
Share premiums	0	0	0			
Revaluation reserves	550.825.22 9	514.995.58 0	1.116.507.511	93,50	216,80	202,70
Reserves	1.397.977.997	1.579.143.738	1.650.865.017	112,96	104,54	118,09
Retained earnings	-1.804.469	-1.804.469	-1.804.469	100,00	100,00	100,00
Profit (loss) for the period	298.631.54 1	376.352.98 6	379.571.46 5	126,03	100,86	127,10
Appropriation of profit	0	0	0	x	X	X
Equity	2.363.368.738	2.586.426.275	3.262.877.964	109,43	126,15	138,06
Public patrimony	0	0	0			
Total equity	2.363.368.738	2.586.426.275	3.262.877.964	109,43	126,15	138,06

Intangible assets

Based on the Concession Agreement approved by GD 668/2002 and the provisions of the Governmental Decision no. 1031/1999, the public domain pipes have been recorded under intangible assets.

On the basis of Law no. 259/2007, letters D and E of appendix no. 3 to the methodological norms regarding the registration within the accounting of the assets which make up the public area of the state and the administrative-territorial units approved under GD 1031/1999 have been cancelled.

Starting with 2011, the company registers the goods which belong to the public area and are subject to the concession agreement under off-balance accounts, according to the provisions of the Order of the Ministry of Public Finance no.3055/2009.

Tangible assets

The tangible assets increased compared to 2010, due to the following:

- ↳ The revaluation on December 31st, 2011 of the land lots and the constructions belonging to the patrimony of Transgaz according to the Order of the Ministry of Public Finance no. 3055/2009. The revaluation was carried out by the trading company SC DARIAN SRS SA Cluj-Napoca, which is authorized by the National Association of Valuers in Romania (ANEVAR). The above mentioned company has drawn up an evaluation report which is compliant with the requirements, standards, recommendations and work methodology established by ANEVAR;
- ↳ the issue of some certificates attesting the property rights over the land, according to GD no. 834/1991, and the purchase of rights.;

Financial assets

The financial assets recorded an increase in 2011, due to the contribution to the increase of the share capital of Nabucco Gas Pipeline International GmnH Vienna with an amount of 6.400.000 Euros. During 2011, there were also decreases regarding the financial fixed assets caused by the following:

- ↳ recovery of guarantees for the temporary removal of some plots of land from the agricultural use, following the investment works, amounting to 2.306.560 Euro;
- ↳ reclassification from financial assets to receivables of the guarantees for the temporary removal of some plots from the agricultural use, guarantees which are to be collected within one year, amounting to 3.455.975 lei.

Receivables

On 31st December 2011, the receivables balance was higher than the 2010 value, due to the quantity of natural gas transported increased by 5.127.529 MWh in December 2011 in comparison to December 2010, from 286.729 thousand lei to 304.040 thousand lei. At the same time, outstanding receivables decreased compared to 2010, due to the collection of some receivables from SC Termoelectrica SA, following the conclusion in March 2011 of a convention for the scheduling the payments, from 82.988 thousand lei to 81.339 thousand lei.

Short-term financial investments

According to the provisions of the Order of the Ministry of Public Finance no. 3055/2009, the short term bank deposits are classified as short term financial investments, undergoing an increase of 83.755.639 lei in comparison to the previous year.

Cash at bank and in hand

On 31st December 2011, the amount of cash at bank decreased compared to 2010. This evolution is explained by the need to cover the current debts. The financial policy of the company is focused on maintaining within the current accounts only the amounts necessary for short-time financing, for the major part of the money available being created term deposits, classified according to the Order of the Ministry of Public Finance no. 3055/2009 as short-term financial investments.

Short-term debts

The short-term debts underwent different changes from the previous year:

- the amounts due to the credit institutions increased due to:

> drawing from the credit line of current account existing with BRD Group Societe

Generale of the amount of 7.785.673 lei;

> drawing in 2011 of the amount of 44.500.000 lei from BRD Group Societe Generale for the purpose of partially financing the company's investment program, a fact which determined the increase in the reimbursement instalment for the following years;

- the level of the investment and rehabilitation works at the end of 2011 was lower in comparison to the same period of the previous year, a fact which determined the decrease in the trade debt by 20.872.654 lei;

- other debts increased due to:

> the increase in the profit tax due on December 31st, 2011 by 4.681.992 lei;

> the increase of the amount of the unclaimed dividends by 2.273.615 lei.

Long-term debts

The evolution of the long-term debts is based on the following:

> According to the provisions of the Order of the Ministry of Public Finance no. 3055/2009 and following the cancellation of letters D and E of appendix 3 to the Methodological norms regarding the registration within the accounting records of the assets which make up the public domain of the state and the administrative-territorial units approved via governmental decision no. 1031/1999, the public domain was registered off balance sheet. The effects of this reclassification led to the decrease of the long-term debts by 482.787.647 lei;

> drawing in 2011 of the amount of 44.500.000 lei from BRD Group Societe Generale for the purpose of partially financing the company's investment program.

On 31st December 2011, the status of Transgaz medium and long term loans is the following:

No.	Financing bank	Loan currency	Loan value	Balance on 31.12.2011
0	1	2	3	4
1.	BIRD	USD	6.933.684,00	756.847,55

2.	UNICREDIT TIRIAC ROMANIA	RON	100.600.000,00	15.884.208,00
3.	BRD GSG	RON	120.000.000,00	96.000.000,00

Equity

The value of the subscribed and paid up share capital underwent no modifications in 2011.

The revaluation reserves were changed as follows:

- decrease by 34.101.784 lei through the transfer of such to the reserves, representing the surplus achieved from the revaluation reserves;
- increase by 636.613.714 lei following the revaluation on December 31st, 2011 of the land lots and constructions belonging to the patrimony of Transgaz

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

5.1.2. Profit and loss account

The evolution of the profit and loss in the 2009-2011 period is the following:

Run ning no.	Specification	Results (lei)			Dynamics (%)		
		2009	2010	2011	5=3/2	6=4/3	7=4/2
0	1	2	3	4			
1.	TOTAL income, out of which:	1.258.467.898	1.377.109.896	1.463.505.150	109,43	106,27	116,29
1.1	Operating income	1.220.014.804	1.342.933.371	1.404.364.126	110,08	104,57	115,11
1.2	Financial income	38.453.094	34.176.525	59.141.024	88,88	173,05	153,80
1.3	Extraordinary income	-	-	-	-	-	-
2.	TOTAL expenditures, out of which:	897.186.393	925.605.375	1.001.244.678	103,17	108,17	111,60
2.1	Operating expenditures	874.867.226	899.269.259	961.793.267	102,79	106,95	109,94
2.2	Financial expenditures	22.319.167	26.336.116	39.451.411	118,00	149,80	176,76
2.3	Extraordinary expenditures	-	-	-	-	-	-
3.	GROSS PROFIT, out of which:	361.281.505	451.504.521	462.260.472	124,97	102,38	127,95
3.1	Operating result (loss)	345.147.578	443.664.112	442.570.859	128,54	99,75	128,23
3.2	Financial result (loss)	16.133.927	7.840.409	19.689.613	48,60	251,13	122,04
3.3	Extraordinary profit (loss)	-	-	-	-	-	-
4.	PROFIT TAX	62.649.964	75.151.535	82.689.007	119,95	110,03	131,99
5.	NET PROFIT	298.631.541	376.352.986	379.571.465	126,03	100,86	127,10

Operating income

The status of the operating income in the 2009-2011 period is the following:

Run ning	Specification	Results (lei)			Dynamics (%)
		2009	2010	2011	

no.							
0	1	2	3	4	5=3/2	6=4/3	7=4/2
1.	Income from the transport activity						
	- thousand m ³	939.194.107	1.054.013.720	1.092.023.204	112,23	103,61	116,27
	- lei	11.548.833	12.306.552	12.820.532	106,56	104,18	111,01
	- lei/1000 m ³	81,32	85,65	85,18	105,32	99,45	104,75
2.	Income from the transit activity						
	- lei	242.735.652	254.088.896j	244.955.523	104,68	96,41	100,91
3.	Other operating income						
	- lei	38.085.045	34.830.756	67.385.400	91,46	193,47	176,93
4.	TOTAL OPERATING INCOME	1.220.014.805	1.342.933.371	1.404.364.126	110,08	104,57	115,11

The income from the operating activity recorded an increase in comparison to the previous year, due to:

- the increase of the quantities of natural gas transported;
- the increase of other operating income by **32.555 thousand lei**, determined mainly by the cashing in of fines and penalties;

Financial income

The evolution of the financial income in comparison to the previous year is determined by:

- the increase of income from interest by 3.883.489 lei;
- the increase of the income from differences of exchange rates by 21.240.018 lei, differences resulting mainly from the monthly revaluation of the money available and the deposits in foreign currency.

Operating expenditures

The status of the operating expenditures in the 2009-2011 period is the following:

No.	Specification	Results (lei)			Dynamics (%)		
		2009	2009	2011			
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 ³	301.721	283.775	278.577	94,05	98,17	92,33
	- lei	148.877.015	134.173.113	133.897.824	90,12	99,79	89,94
	- lei/1000 m ³	493,43	472,82	480,65	95,82	101,66	97,41
2	Auxiliary materials	22.859.835	19.869.498	23.587.703	86,92	118,71	103,18
3	Electricity, water	5.160.003	5.512.957	6.308.894	106,84	114,44	122,27

4	Depreciation and provisions	123.060.224	135.266.706	163.318.194	109,92	120,74	132,71
5	Works, services executed by third parties	136.023.032	159.670.746	156.905.314	117,39	98,27	115,35
6	Salary fund	166.563.267	177.435.814	185.033.691	106,53	104,28	111,09
7	Health insurance fund, unemployment fund, other personnel expenditures	49.172.894	56.239.568	69.026.112	114,37	122,74	140,37
8	Gas quota	39.945.656	39.124.302	39.831.506	97,94	101,81	99,71
9	Food tickets	8.812.966	9.160.451	9.307.878	103,94	101,61	105,62
10	Other material expenditures	4.274.567	4.400.391	3.654.528	102,94	83,05	85,49
11	Expenditures with other taxes and fees	6.732.313	9.365.672	8.480.611	139,12	90,55	125,97
12	Tax for the issue of the gas transport and international transit licence	4.497.126	11.606.742	5.804.840	258,09	50,01	129,08
13	Royalty for the concession of the NTS	118.192.976	130.810.261	133.697.873	110,68	102,21	113,12
14	Other operating costs	40.695.352	6.633.038	22.938.299	16,30	345,82	56,37
*	TOTAL OPERATING EXPENDITURES	874.867.226	899.269.259	961.793.267	102,79	106,95	109,94

Between 2009-2011, 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;
- the registration on the basis of the revaluation report of the expenses regarding the amortisation of land lots and constructions;
- the royalty for the concession of NTS with a quota of 10% increased in comparison to 2010 due to the increase in the income achieved with the natural gas transport operations;
- the expenses with the provisions for risks and expenses increased in comparison to 2010 due to the creation in 2011 of the provision regarding the participation of the employees to the profit.

We hereby mention that for 2009 and 2010, the contributions for the gas benefit were included within the profit and loss account under "Other expenses". In 2011, this expenses was presented within the profit and loss account under "Expenses for insurance and social security".

Financial expenditures

Financial expenditures mainly include: expenditures with interest and fees associated to contracted loans and foreign exchange expenses.

- the expenses with interests increased following the increase in the rate of interest and the contracting of the credit with BRD Group Societe Generale for the purpose of partially financing the investment program;

- the expenses regarding the differences in exchange rates increased in comparison to 2010 due to:

- > the change in the exchange rate, an exchange rate used for the monthly revaluation of the money available, the deposits, debts and receivables in foreign currency;
- > the existence of foreign currency deposits larger than the deposits existing in 2010.

5.3. Cash-flow

The cash-flow statement for the 2009-2011 period is presented below:

Indicator	Financial year ended on 31 st December		
	2009	2010	2011
Operating activities:			
Net profit	298.631.541	376.352.986	379.571.465
Depreciation expenditures	127.557.350	135.266.706	163.318.194
Expenditures/(income) related to provisions for current assets	1.669.484	-36.031.162	-15.191.426
Bad debts written off	28.577	42.051	2.822.998
Adjustments related to provisions for risks and expenditures	1.611.060	-37.204	11.178.065
The effects of the exchange rate variation	1.663.743	822.351	-151.231
Income from subsidies for investments	0	-8.672.862	-12.987.374
Interest income	-34.717.805	-14.836.179	-18.719.668
Interest expenses	12.645.100	5.462.109	9.269.198
Profit/Loss from the sale of tangible assets	416.815	1.698.382	1.474.468
Other financial expenditures/(income)	0	0	-1.235.809
Profit tax	62.649.964	75.151.535	82.689.007
Increase of operating cash before changes in working capital	472.155.829	535.218.713	602.037.887
(Increase)/decrease of inventories balance	4.798.918	5.067.192	-14.877.655
(Increase)/decrease in balances of trade receivables and other receivables	-69.450.944	-77.775.621	-27.573.006
Increase in balances of trade debts and other debts	-2.590.613	67.994.211	968794
Net cash flow generated by operational activities	404.913.190	530.504.495	560.556.020
Interest receivable	34.554.866	14.907.081	18.200.668
Interest payable	-10.750.426	-4.921.337	-9.406.649
Payments related to the employees' share of profits	-7.519.622	-7.808.325	0
Paid profit tax	-51.444.567	-78.819.502	-78.007.085
Cash flow from operating activities	369.753.441	453.862.412	491.342.954
Dividends receivables			
Sale of financial assets	-12.289.736	-27.000.415	-26.353.874
Proceeds from granted loans	0	0	0
Sale of assets	91.794	354.662	716.324
Purchase of assets	-373.157.300	-401.570.430	-116.808.582
Cash flow used in the investment activity	-385.355.242	-428.216.183	-142.446.132⁻¹
Reimbursement of loans	-32.113.023	-28.619.232	-47.808.857
Withdrawals from loans	0	75.500.000	44.500.000
Dividends payable	-122.500.718	-152.831.849	-335.224.068

Investment subsidies (access to NTS, subsidies)	40.196.949	81.249.215	58.486.331
Share premium			
Cash flow used in the financing activity	-114.416.792	-24.701.866	-280.046.594
Cash flow - total	-130.018.593	944.363	68.850.228
Changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	326.584.858	196.566.265	197.510.628
Changes in cash and cash equivalents	-130.018.593	944.363	68.850.228
Cash and cash equivalents at the end of the period	196.566.265	197.510.628	266.360.856

The analysis of the cash flow on December 31st, 2011 indicated an increase of the money available by 68.850.228 lei, in comparison to the previous year.

The changes which the cash flow underwent in 2011 are as follows:

- the operating cash flow generated amounts to 491.342.954 lei, larger by 37.480.542 lei than the amount corresponding to 2010;
- the cash flow used for the investment operations amounts to 142.446.132 lei, lower by 285.770.051 lei in comparison to the amount corresponding to 2010;
- the cash flow used for the financing operations amounts to 280.046.594 lei, larger by 255.344.728 lei in comparison to the amount corresponding to 2010.

Chapter 6. CORPORATE GOVERNANCE

Corporate governance is a concept with a very wide meaning which includes elements such as: the responsibility of the managers regarding the accuracy of the information in the financial reports, the existence of very tight deadlines for financial reporting, communication and total transparency regarding the financial results, the transparency of the internal audit, of the processes and external audit.

The corporate governance refers in detail to the manner of allotting the rights and the responsibilities between the categories of participants to the company's activity, such as the board of directors, managers, shareholders and other interest groups, specifying the manner in which decisions are made regarding the activity of the company, the manner of defining the strategic objectives, which are the means of achieving such and the manner of monitoring the economic performance.

The practice confirms the necessity of intensifying the efforts of accepting the corporate governance, because it was noticed that the organizations which focus on implementing the principles of such succeeded in maximizing their performance.

The general and specific strategic objectives of Transgaz activity are established in the context of applying the requirements of the new European energy policy regarding the energy safety and security, sustainable development and competitiveness. In this context, the implementation and development of the principles of corporate governance, the development of the responsible, transparent business practices become more important in the substantiation

and implementation of the business strategies and policies of the companies. By subscribing to this challenge, Transgaz intends through its **own Corporate governance regulation** to ensure a strict framework for dimensioning, implementing and developing the corporate governance at company level.

The Corporate governance regulation of the company was endorsed by the Board of directors via decision no. 3/18.01.2011 and approved by the General Shareholders' Assembly of March 2nd, 2011, via the decision of the General Shareholders' Assembly no. 1/2011 (article 4).

The document has a structure compliant with the relevant requirements and includes **9 chapters**, as follows:

- Chapter 1 – Corporate governance structures: Board of directors, advisory committees, executive management. The tasks of the executive management are established through the organization and operation regulation of Transgaz and through the code of professional conduct the ethical conduct norms compulsory for all the employees are regulated and applied in all the organisational and hierarchical structures of the company;
- Chapter 2 – The rights of the shareholders: The rights of the holders of shares, the treatment of the holders of shares;
- Chapter 3 – The Board of Directors: The role and the obligations of the Board of Directors, the structure of the Board of Directors, the appointment of the members of the Board of Directors, the remuneration of the members of the Board of Directors;
- Chapter 4 – The transparency, the financial reporting, the internal control and risk management: transparency and financial reporting;
- Chapter 5 – The conflict of interests and the transactions with the persons involved: conflict of interest; transactions with persons involved;
- Chapter 6 – The regime of corporate information;
- Chapter 7 – Social responsibility;
- Chapter 8 – The administration system;
- Chapter 9 – Final dispositions.

Starting with 2010, the description of the Corporate Governance in the Directors' Report is compulsory for the companies listed with the stock exchange.

The components included in the report regarding corporate governance shall be: quality, environment, CSR, aspects of the corporate governance. The companies listed with the stock exchange who have decided to implement the corporate governance principles shall fill in the "Apply or Explain" statement, starting with 2011.

Transgaz has adhered to the Corporate Governance Code of Bucharest Stock Exchange and applies from the recommendations of this code, according to the statement regarding the

compliance or non-compliance with the provisions of the Corporate Governance Code ("Apply or Explain" statement), the recommendations corresponding to principles no: 1,2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 15, 17, 18 and explains the recommendations corresponding to principles no.: 14, 16 and 19.

The corporate governance and the "Apply or Explain" statement are described in detail in the appendices to the Directors' Report.

Chapter 7 MISCELLANEOUS

Starting with 2006, Transgaz has been under the surveillance of the rating agency Standard&Poor's for the purpose of periodically allotting and reviewing the credit rating.

Following the company's economic performance, in February 2008, the agency granted Transgaz a corporate rating for long-term loans to **BBB- with negative outlook** ("investment grade"), this being the best rating granted to any Romanian company up to that moment.

On 30th 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*.

On March 24th, 2011, the review of the rating led to the improvement of the perspective of Transgaz from "*negative*" to "*stable*" both for the foreign currency loans and the local currency loans.

The last review of the rating of Transgaz, which took place on December 7th, 2011, confirmed the rating **BB+ with a stable perspective** for the foreign currency loans and reduced the rating for the local currency loans to **BB+ with a stable perspective**, from **BBB- with a stable perspective**.

Although the strong points of Transgaz which underlay the ratings granted during the previous reviews (the capacity of sole operator licensed for the national natural gas transport system in Romania, the strong financial profile of the company, the predictability of the cash flow and the holding by the Romanian state of 73.5% of Transgaz) remain unchanged, the decision of reviewing the rating for the local

currency was caused by the downgrading made by Standard & Poor's for the sovereign rating in the local currency of Romania from BBB-/A- to BB+/B.

The setting of the current rating took into account the following aspects:

- The return of the quota of the dividends to their historical average value, respectively around the level of 50% of the net profit;
- Being granted governmental support in the case of possible financing problems.

According to Standard & Poor's, certain pressures concerning the rating might result from the involvement of the company Transgaz into the Nabucco project. The commitments regarding the project could affect the financial profile of Transgaz in the context of a lack of an actual support on the part of the state.

The rating could also be affected by the diminished support from the state regarding the company's dividend policy.

CHAIRMAN OF THE BOARD OF DIRECTOS,

Victor Alexandru Schmidt

Illegible signature

Official stamp: Transgaz S.A.