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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

JUNE 30th 2011

Drawn up according to the Order of the Minister of Public Finance no. 3055/2009 and its subsequent amendments

UNAUDITED

CASH FLOW STATEMENT

	Note	Year ended on December 31st, 2010 (RON)	On June 30th, 2011 (RON)
Operating activities:			
Net profit		376.352.986	255.279.480
Depreciation expenditures		135.266.706	73.571.462
Expenses / (income) regarding the provisions for current assets		(36.031.162)	(12.328.585)
Loss from receivables of various debtors		42.051	2.502.656
Adjustment of the value of the tangible and intangible fixed assets		(37.204)	510.393
Effect of the variation of the exchange rate		822.351	164.771
Income from subsidies		(8.672.862)	(5.859.814)
Income from interests		(14.836.179)	(6.529.932)
Expenses for interests		5.462.109	4.336.019
Loss from the sale of tangible assets		1.698.382	1.068.687
Profit tax		75.151.535	49.852.533
Increase of the operating cash flow before the change in the working capital		**535.218.713**	**362.567.670**
Decrease increase in the inventory balance		5.067.192	(13.014.728)
Increase in the balance of trade receivables and other receivables		(77.775.621)	145.259.565
Increase in the balance of trade debts and other debts		67.994.211	(44.748.735)
Net cash flow from operational activities		**530.504.495**	**450.063.772**
Interests cashed in		14.907.081	6.484.255
Paid interests		(4.921.337)	(4.462.343)
Payments corresponding to the contribution of the employees to the profit		(7.808.325)	-
Paid profit tax		(78.819.502)	(59.620.119)
Net cash flow from operating activities		**453.862.412**	**392.465.565**
Purchases of capital assets		(27.000.415)	(17.465.039)
Sales of fixed assets		354.662	39.410
Purchases of fixed assets		(401.570.430)	(67.288.638)
Cash flow from investment activities		**(428.216.183)**	**(84.714.267)**

CASH FLOW STATEMENT

	Note	Year ended on December 31st, 2010 (RON)	On June 30th, 2011 (RON)
Reimbursements of loans		(28.619.232)	(23.939.056)
Loan draws		75.500.000	44.500.000
Paid dividends		(152.831.849)	(522.163)
Subsidies (SNT access and subsidies for investments)		81.249.215	16.918.693
Cash flows from /(used in) funding activities		**(24.701.866)**	**36.957.474**
Cash flow - total		**944.363**	**344.708.772**
Changes in the cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	13	196.566.265	197.510.628
Changes in the cash and cash equivalents		944.363	344.708.772
Cash and cash equivalents at the end of the period	13	197.510.628	542.219.400

President of the Board of Directors,
Mr. Victor Alexandru Schmidt

General Manager,
Mr. Florin Cosma

Manager of Economic Department,
Mr. Radu Moldovan

STATEMENT REGARDING THE CHANGES IN EQUITY CAPITAL

Equity capital item	Balance on January 1st, 2010 (RON)	Increases (RON)	Decreases/ Distributions (RON)	Balance on December 31st, 2010 and January 1st, 2011 (RON)	Increases (RON)	Decreases/ Distributions (RON)	Balance on June 30th, 2011 (RON)
Subscribed capital (note 7)	117.738.440	-	-	117.738.440	-	-	117.738.440
Revaluation reserves	550.825.229	-	35.829.649	514.995.580	-	17.122.366	497.873.214
Legal reserves	23.547.688	-	-	23.547.688	-	-	23.547.688
Other reserves	1.282.097.481	145.336.092	-	1.427.433.573	37.619.494	-	1.465.053.067
Profit or loss carried forward resulting from adjustments carried out on the opening reserves							
Balance due	-	-	-	-	-	-	-
Profit or loss carried forward resulting from the application of the Accounting Regulations compliant with the fourth Directive of the European Economic Community							
Balance due	1.804.469	-	-	1.804.469	-	-	1.804.469
Revaluation reserve surplus	92.332.828	35.829.649	-	128.162.477	17.122.366	-	145.284.843
Profit or loss of the financial year							
Credit balance	298.631.541	376.352.986	298.631.541	376.352.986	255.279.480	376.352.986	255.279.480
Total equity	**2.363.368.738**	**557.518.727**	**334.461.190**	**2.586.426.275**	**310.021.340**	**393.475.352**	**2.502.972.263**

President of the Board of Directors,
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NOTES TO THE FINANCIAL STATEMENTS

THE REPORTING ENTITY

These financial statements are submitted by the National Gas Transmission Company TRANSGAZ SA.

1. FIXED ASSETS

a) Intangible assets

These include patents, licenses and computer programs:

	Concessions (RON)	Licenses, computer programs and other intangible assets (RON)	Advance payments and intangible assets in progress (RON)	Total (RON)
Cost				
Balance on January 1st, 2011	482.787.647	56.131.431	3.958.223	542.877.301
Increases	-	3.463.164	375.910	3.839.074
Output / transfers	-	-	3.463.019	3.463.019
Balance on June 30th, 2011	482.787.647	59.594.595	871.114	543.253.356
Cumulated depreciation				
Balance on January 1st, 2011	-	45.085.869	-	45.085.869
Depreciation registered during the year	-	3.008.345	-	3.008.345
Balance on June 30th, 2011	-	48.094.214	-	48.094.214
Net accounting value on January 1st, 2011	**482.787.647**	**11.045.562**	**3.958.223**	**497.791.432**
Net accounting value on June 30th, 2011	**482.787.647**	**11.500.381**	**871.114**	**495.159.142**

The concessions represent the amount of the concession of the National system of natural gas distribution according to the concession agreement concluded by the National Mineral Resources Agency (A.N.R.M.) on March 22nd, 2002 and approved via the Government Decision no. 668/20th June 2002. Starting on July 2002, according to Government Decision 1031/1999 and Government Decision 1326/2001, the company does not depreciate this concession.

1. FIXED ASSETS (CONTINUED)

b) Tangible assets

	Land lots and buildings (RON)	Technical systems and machines (RON)	Other systems, equipment and furniture (RON)	Advance payments and tangible assets in progress (RON)	Total (RON)
Cost/evaluation					
Balance on January 1st, 2011	3.164.709.316	189.056.337	13.867.515	396.222.107	3.763.855.275
Increases/ transfers	77.931.672	5.068.819	550.483	35.808.941	119.359.915
Reductions/ transfers	3.043.334	1.529.856	28.641	72.815.371	77.417.202
Balance on June 30th, 2011	3.239.597.654	192.595.300	14.389.357	359.215.677	3.805.797.988
Cumulated depreciation					
Balance on January 1st, 2011	915.868.416	110.227.087	6.572.205	-	1.032.667.708
Depreciation recorded during the year	59.409.041	10.263.881	890.195	-	70.563.117
Reductions or resumptions	2.029.348	1.442.311	22.075	-	3.493.734
Balance on June 30th, 2011	973.248.109	119.048.657	7.440.325	-	1.099.737.091
Net accounting value on January 1st, 2011	**2.248.840.900**	**78.829.250**	**7.295.310**	**396.222.107**	**2.731.187.567**
Net accounting value on June 30th, 2011	**2.266.349.545**	**73.546.643**	**6.949.032**	**359.215.677**	**2.706.060.897**

The tangible assets include assets which are completely depreciated having an inventory value of 81.892.314 RON (74.740.553 RON on December 31st, 2010). The constructions also include the special constructions for the gas pipes.

Revaluation of the tangible assets

On December 31st, 2008, the land lots and the buildings belonging to the patrimony of SNTGN TRANSGAZ SA were revaluated according to the Order of the Minister of Public Finance of Romania no. 1752/2005. The revaluation work was carried out by the trading company DARIAN ROM SUISSE SRL Cluj – Napoca, which is authorized by the National Association of Evaluators in Romania (ANEVAR). The above mentioned company drew up an Evaluation report which was compliant with the requirements, standards, recommendations and the work methodology established by ANEVAR.

1. FIXED ASSETS (CONTINUED)

The revaluation surplus was credited into the revaluation reserve account within equity capital.

The changes in the revaluation reserve during the financial year are presented as follows:

	2010 (RON)	2011 (RON)
The revaluation reserve at the beginning of the financial year	550.825.229	514.995.580
Transferred amounts from the revaluation reserve during the financial year	35.829.649	17.122.366
The revaluation reserve at the end of the financial year	514.995.580	497.873.214

c) Capital assets

	Balance on January 1st, 2011 (RON)	Increases (RON)	Reductions (RON)	Balance on June 30th, 2011 (RON)
Equity securities within the companies within the group	18.116.501	-	-	18.116.501
Depreciation provision	(18.116.501)	-	-	(18.116.501)
Participating interests	38.333.046	18.470.560	-	56.803.606
Titles held as fixed assets	6.461.736	-	-	6.461.736
Depreciation provision	(6.461.736)	-	-	(6.461.736)
Other financial receivables	7.758.771	890.343	1.943.772	6.705.342
	46.091.817	**19.360.903**	**1.943.772**	**63.508.948**

1. FIXED ASSETS (CONTINUED)

On June 30th, 2011, the company held titles under the form of participating interests within the following unlidted entities:

Company	Country	Business area	Registration date	Percentage held 2010 (%)	Percentage held 2011 (%)	Amount on December 31st, 2010 (RON)	Amount on June 30th, 2011 (RON)

Resial SA	România	Fire resistant products	December 2003	68,16	68,16	18.116.501	18.116.501
Provision for impairment						(18.116.501)	(18.116.501)
Mebis SA Bistriţa	România	Metal structures and welded assemblies	February 2004	17,47	17,47	6.461.736	6.461.736
Provision for impairment						(6.461.736)	(6.461.736)
Nabucco Gaz Pipeline International Gmbh	Austria	The manufacturing and exploitation of the Nabucco pipeline	February 2004	16,67	16,67	38,332,992	56,803,552
Nabucco Gaz Pipeline LTD Sirketi	Turkey	The manufacturing and exploitation of the Nabucco pipeline	August 2010	0,5	0,5	54	54
						38333046	56803606

Participation within SC Resial SA (68,16%) was obtained in December 2003 via the direct execution of a pledge for the recovery of a trade receivable on SC Caloni Serv Com Azuga.

In February 2004 the company initiated the drawing up of a sale offer, according to the law, for reducing the contribution by 35.16% of the shares of Resial SA. Since this offer had not become true prior to December 31st, 2005, the contribution within Resial was classified as „Equity securities held within companies within the group" and was entirely provisioned. The company management deems it prudent to keep the provision also on June 30th, 2011 since the company Resial SA is undergoing a liquidation procedure.

1. FIXED ASSETS (CONTINUED)

The contribution within SC Mebis SA Bistriţa (17.47%) was obtained in February 2004 via the direct execution of a pledge for the recovery of a trade receivable amounting to 6.461.736 RON regarding SC Caloni Serv Com Azuga. The company management entirely provisioned this fixed asset on December 31st, 2010 and on June 30th, 2011 since the company is undergoing insolvency.

The month of February 2004 marked the set up of the survey company – Nabucco Company Pipeline Study GmbH, having its office in Wien, Austria while the month of October 2005 marked the renaming of the company as NABUCCO Gas Pipeline International Gmbh (NIC). The initial share capital of the company, with a total amount of 35.000 EUR, was made up of an equal contribution with a share of 20% of every of the five founding companies of the respective Consortium: BOTAS-Turkey, Bulgargaz-Bulgary, SNTGN Transgaz-Romania, MOL-Hungary and OMV Erdgas- Austria. The company NABUCCO Gas Pipeline International shall have subsidiaries in every of the transited countries.

The month of February 2008 marked the signing of the documents regarding the cooptation within the company Nabucco of a new shareholder, respectively the company RWE Gas Midstream in Germany. From the point of view of the associating mechanism, RWE became a shareholder through the decision of increasing the share capital of NIC, the other associated shareholders giving up their first refusal right. Consequently, the shares issued by NIC, amounting to 7000 EUR have been purchased by RWE, thus changing the contribution share to the share capital of NIC, of every shareholder, from 20% to 16.67%.

At the same time, following the new financing mechanism at the level of company NIC, through capital contributions and subsequent incorporation of such within the share capital, in 2008, the share capital of NIC thus increased from 762,000 Euros (127,000 Euros/shareholder), as it results from the justifying excerpt of the Commercial Court in Wien, issued on March 5th, 2008. At the end of 2009 the contribution of Transgaz increased to 3.444.450 Euros subsequent to the 2009 transfer of 3.317.450 Euros as contributions to the share capital of the company NIC. In 2010, the contribution of SNTGN Transgaz SA to the share capital of NIC was supplemented by 5.600.000 EUR. In 2011, the contribution of SNTGN Transgaz SA to the share capital of NIC was supplemented by 4.400.000 EUR.

The project Nabucco has been included within the power strategy of Romania for the period 2007-2020 under chapter IV „The objectives for developing the power sector and the measures stipulated in order to ensure that these objectives are reached".

The date of June 18th, 2010 marked the incorpotation of the Company NABUCCO GAS PIPELINE LIMITED ŞIRKETI Turckey having its office in Ankara (the subsidiary of the Companz Nabuccor Gas Pipeline International GmbH). The companz has 5 shareholders: Nabucco Gas Pipeline International GmbH, BOTAS-Turkey, Bulgargaz-Bulgaria, SNTGN Transgaz SA-Romania, MOL-Ungaria and OMV Gas &Power GmbH – Austria.

The sharecapital of the Company NABUCCO GAS PIPELINE LIMITED ŞIRKETI amounts to 5.000 TRL, divided into 200 shares, each having a nominal value of 25 TRL. The share capital is totally subscribed by the shareholders as follows: Nabucco Gas Pipeline International GmbH 98% of the shares and each of the other sharesholders having 0.5% of the shares.
The company has not undertaken any obligation and has not made any payment on behalf of the companies within which it holds titles under the form of participating interests.

Shares held as capital assets

The long term securities are evaluated at the historic cost minus the possible adjustments for the decrease in value. The classification of the real estate as capital assets or short term investments is carried out depending on the Company's decision regarding the period of holding the securities, up to one year or for more than one year.

2. PROVISIONS FOR RISKS AND CHARGES

Name of the provision	Balance on 1st January 2011 (RON)	Transfers into account (RON)	Transfers from account (RON)	Balance on 30th June 2011 (RON)
	1	2	3	4=1+2-3
Nabucco Provision Reserve fund	47.823	-	-	47.823
Provision for guarantees granted to customers	485.855	510.393	-	996.248
Provision for litigations	5.202.348	-	-	5.202.348
Provision for pensions and other similar obligations	25.513.286	-	-	25.513.286
	31.249.312	510.393	-	31.759.705

Provision for the retirement funds

The provision for pensions and other similar obligations was created for the benefits which shall be granted to the employees at the moment of their retirement depending on their seniority in the gas industry according to the collective labour contract concluded with the company's employees.

Provision for litigations

The provision for litigations amounting to 5.202.348 RRON refers to the follows cases:
SC Termoficare 2000 Piteşti for which the Commerical Court Arges took the civil decision of December 6th, 2010 forcing Transgaz to pay the amount of 4711727.24 RON representing penalties and damages, Transgaz filed an appeal and requested that the execution of the decision be suspended.
Bălăşoiu Marian presenting claims regarding the lack of land lot amounting to 490.621,25 RRON, on the dockets of the Drăgăşani Court. Transgaz submitted to CEDO an application regarding the infringement of the national norms concerning the right of publis ownership of the Romanian state.

3. APPROPRIATION OF PROFIT

The above mentioned appropriations were carried out by the company according to the applicable regulations regarding the compulsory allotments that is according to Law 31/1990 regarding the trading companies, amended with the subsequent supplements and the Government Emergency Ordinance no. 64/2001, modified via the Order of the Minister of Public Finance no.144/2005 regarding the appropriation of the profit within the national companies, national corporations and entirely state-owned and majority state-owned trading companies and via Government Emergency Ordinance no. 55/June 23rd, 2010 article V regarding certain measures for reduccing the public expenses.

4. APPROPRIATION OF PROFIT (CONTINUED)

Destination	Financial year ended on 31st December 2010 (RON)	Financial year ended on 30th June 2011 (RON)
Net profit to be appropriated	376.352.986	-
Appropriations for:		
- Other reserves	37.619.494	-
- dividends	338.733.492	-
Profit non appropriated	-	-

Dividends

The complete appropriation of the profit for 2010 was approved within the ordinary general shareholders' assembly in its meeting on June 10th, 2011. The company declared dividends amounting to 28.77 RON/share for 2010.

3. ANALYSIS OF THE OPERATING PROFIT/LOSS

Indicator	On 30th June 2010 (RON)	On 30th June 2011 (RON)
1. Net turnover	**690.546.995**	**712.630.681**
2. Cost of goods sold and services provided (3+4+5)	403.955.809	416.993.276
3. Expenses related to the core business	225.652.361	226.401.432
4. Expenses related to auxiliary operations	19.072.805	21.292.768
5. Indirect production expenses	159.230.643	169.299.076
6. The gross profit/loss corresponding to the net turnover (1-2)	**286.591.186**	**295.637.405**
7. Sales expenses	-	-
8. General management expenses	(1.104.867)	17.734.227
9. Other operating income	19.660.794	32.308.232
10. Operating profit/loss (6-7-8+9)	**307.356.847**	**310.211.410**

4. ACCOUNTS RECEIVABLE AND PAYABLE

Receivables	Note	Balance on 30th June 2011 (RON)	Maturity Date under 1 year (RON)	over 1 year (RON)
		1 (col. 2+3)	2	3
Trade receivables	11	172.972.340	172.972.340	-
Other receivables	12	18.913.953	18.913.953	-
		191.886.293	191.886.293	-

Debts	Note	Balance on 30th June 2011 (RON)	Maturity Date under 1 year (RON)	1 - 5 years (RON)	over 5 years (RON)
		1 (col. 2+3+4)	2	3	4
Trade debts	14	107.117.827	107.117.827	-	-
Advance payments from customers		3.679.890	3.679.890	-	-
Amounts owed to credit institutions	16; 17	137.891.852	47.584.144	90.307.708	-
Debts regarding the concession of the goods belonging to the state public domain	18	482.787.647	-	-	482.787.647
Other debts, including tax debts and debts to the social security fund	15; 18	461.222.896	458.274.648	-	2.948.248
		1.192.700.112	**616.656.509**	**90.307.708**	**485.735.895**

5. ACCOUNTING PRINCIPLES, POLICIES AND METHODS

The main accounting policies adopted for the drawing up of these financial statements are presented below.

A. The basis for drawing up the financial statements

(1) General information

These financial statements have been drawn up according to the following:

(i) the Accounting Law 82/1991 republished in January 2005 ("Law 82");

(ii) The accounting regulations according to the European directives approved via the Order of the Minister of Public Finance of Romania 3055/2009 ("OMPF 3055"), with its subsequent amendments; the Order of the Minister of Public Finance 3055 states that the legal persons provided under article 1 paragraph 1 of Law 82 applies the accounting regulations according to the Directive IV of the European Economic Community, and the yearly consolidated financial statements are drawn up according to Directive VII of the European Economic Community.

(iii) Regulation specific to the natural gas domain

(iv) Law 332/June 29th 2001 regarding the promotion of the direct investments with a significant impact upon the economy. This law states that the direct investments having a significant impact upon the economy (with an amount exceeding the equivalent of one million US dollars) benefit from the use of the accelerated depreciation according to the provisions of republished Law 15/1994 regarding the depreciation of the fixed assets in tangible and intangible assets, with its subsequent amendments and supplements.

These financial statements have been drawn up on the basis of the convention regarding the historical cost, with the exceptions further presented in the accounting policies.

(2) The use of the estimates

The drawing up of the financial statements according to the Order of the Minister of Public Finance no. 3055/2009 and the subsequent amendments requests that the company management should make estimates and hypotheses which have an impact upon the reported amounts of the assets and liabilities, the presentation of the assets and contingent debts at the date of drawing up of the financial statements and the reported income and expensed for the respective period. Although these estimates are carried out by the company management on the basis of the best available information at the date of the financial statements, the achieved results can be different from these estimates.

(3) Continuity of the activity

These financial statements have been drawn up on the basis of the principle of the continuity of the activity which implies the fact that the company shall carry out its activity further as usual in the near future. In order to assess the applicability of this assumption, the management analyzes the provisions regarding the future cash inflow.

On the basis of these analyses, the management considers that the company shall be able to continue its activity in the near future and, consequently, the application of the continuity of the activity in drawing up the financial statements is justified.

(4) The currency for darwing up the financial statements

The accounting records are drawn up in Romanian and with the national currency. The elements included in these financial statements are presented in Romanian RON.

B. The conversion of the transactions into foreign currency

The company transactions in foreign currency are recorded at the exchange rates communicated by the National Bank of Romania ("NBR") for the date of the transactions. At the end of every month, the balances in foreign currency are converted into RON at the exchange rate communicated by the National Bank of Romania for the date of the balance. The income and the loss resulted from the settlement of the transactions in a foreign currency and from the exchange of the assets and the currency debts expressed in foreign currency are acknowledged from the profit and loss account within the financial result.

C. Intangible assets

(i) Set-up expenditure

The expenditure corresponding to the set-up or the development of the company such as: taxes and other registration and recording expenses, expenditure corresponding to the issue and the sale of shares and bonds, expenses for surveying the market, advertising expenses and other expenses of this king related to the set-up and the extension of the activity of the company, are capitalized and are subject to a straight-line depreciation for a 1-year period.

The depreciation is calculated starting from the month prior to the one when the capitalization of the respective expenses was registered.

(ii) Development expenditure

The development expenditure generated by the practical application of the results of the research or other knowledge within a plan or project which focuses on the production of materials, devices, products, processes, systems or new or substantially improved services, prior to the beginning of the production or the commercial use is recognized as intangible assets and it is paid during the period of the contract or during the use period.

The intangible asset generated by development (or the development stage of an internal project) is recognized if the following criteria are fulfilled:

6. ACCOUNTING PRINCIPLES, POLICIES AND METHODS (CONTINUED)

a) Its completion is feasible from a technical perspective so that it is available for use or sale;

b) The management intends to complete it and use it or sell it;
c) There is the capacity of using it or selling it;
d) The manner in which the intangible asset shall generate possible future economic benefits can be justified;
e) Technical, financial resources are available and other types of resources in order to complete the development and in order to use or sell the intangible asset;
f) The expenditure which can be attributed to the fixed asset can be evaluated during the period of its development.

The development expenditure which does not fulfill the criteria mentioned previously is considered expenses at the moment when it is generated. The development expenditure which has been registered as expenses is not capitalized during the subsequent periods.

(iii) Trade fund

The trade fund represents the difference between the purchase cost and the just value on the date of the transaction of the part of the net purchased assets.
The trade fund is recognized during a purchase or merger, when the transfer of all the assets or of a part of them is carried out and, where applicable, the transfer of all debts and equity capital is carried out. The transfer should be associated to a transaction represented by an integrated assembly of operations and assets organized for the purpose of obtaining benefits. The registration of the assets and the debts received during the transfer is carried out at the just value determined through their individual evaluation.

The trade fund is depreciated in a straight line during a period of 5 years.

The trade fund generated internally is not recognized as an asset.

(iv) Concessions

The concessions are recorded at the purchase cost or the contribution value.

The concessions received are reflected as intangible assets when the concession contract establishes a period and a value determined through concession. The depreciation of the concession is recorded for the period of using such established according to the contract.

The concessions have been recorded at the stock value of the tangible assets belonging to the public domain and which were the object of the concession agreements concluded with the National Agency of Mineral Resources (”A.N.R.M.”), approved via the Government Decision no. 668/2002, published in the Official Journal no. 486/2002. Accordingly, the company recorded a long term debt corresponding to the concession.

According to the provisions of Law 213/November 17th, 1998 regarding the public propetty and its regime and of Government Decision 1031/December 14th, 1999 regarding the approval of the methodological norms regarding the accounting registration of the goods which are part of the state public domain, the company does not depreciate the fixed assets which represent the object of the concession agreement. According to this agreement, the company registers a royalty expense of 10% of the income obtained from the internal gas transport and transit services performed.

The investments made from own financing surces for the concessioned goods are depreciated according to the Order 555/April 24th 2003, and upon the expiry of the normal use period or of the concession contract shall be included within the inventory of the goods within the state public domain, as goods to be returned to the issuer of the concession at the end of the concession agreement.

The goods to be returned to the issuer of the concession at the end of the concession agreement which are subject to concession, the goods created through investments by the company as well as the goods resulted from the carrying out of the modernization and development programs which are compulsory according to the concession agreement.

(v) Licenses, computer programs and other intangible assets

The licenses, the computer programs and other intangible assets are registered at the purchase price and are depreciated using the straight-line method throughout the functional life of such, but no more than 3 years.

(vi) Advance payments and other intangible assets

Within the advance payments and the intangible assets the advance payments granted to the providers of intangible assets, the computers programs created by the entity or bought from third parties for own use necessity are recorded as well as other intangible assets of the company.

The expenses which allow the intangible assets to generate future economic benefits over the initially estimated performance are added to the original cost of such. These expenses are capitalized as intangible assets but they are not an integral part of the intangible assets.

D. Tangible assets

(1) Cost/assessment

The tangible assets are initially assessed on the basis of the purchase cost.

A part of the tangible assets have been reassessed on the basis of certain government decisions („GD") 945/1990, 2665/1992, 26/1992, 500/1994 and 983/1998 by indexing the historical cost with the indices provided in the respective governmental decisions. The increases of the accounting values of the tangible assets resulted from such reassessments have been initially credited within reserves from revaluation but suibsequently except for the Government Decision 983/1998, within the share capital, according to the provisions of the respective government decision.

6. ACCOUNTING PRINCIPLES, POLICIES AND METHODS (CONTINUED)

On December 31st, 2002, the tangible assets have been revaluated on the basis of the government decision 403/2000. According to the government decision 403/2000, the historical cost or the value resulted from the application of the previous government decisions regarding the revaluation of the tangible assets and the cumulated depreciation have been indexed with the cumulative indices of the inflation between the date of acquisition or he date of the last revaluation and the balance date. At the same time, the government decision 403/2000 stipulates the adjustment of the value indexed by comparison to the use value and the market value. The increase of the accounting value resulted from such revaluations was credited within the revaluation reserve.

On December 31st, 2008, the tangible assets have been revaluated on the basis of the Order of the Minister of Finance 1752 which stipulates that the revaluation of the tangible assets be carried aut at the correct value determined on the basis of certain assessments carried out, usually, by specialists trained in evaluations. The increase of the accounting value resulted from such revaluations was credited within the revaluation reserve.

According to the Order of the Minister of Finance 3055 the just values of the revaluated tangible assets are reviewed for and update on a regular basis so that the accounting value should not be very different from the value which would have been determined by using the just amount on the date of the balance sheet. If there is no information from the market regarding the just amount, the just amount is estimated on the basis of the net cash flows or of the depreciated replacement cost.

If a tangible asset completely depreciated can still be used, at the moment of revaluating such, a new value shall be established as well as a new period of economic use corresponding to the estimated period to be used further on.

The cost of a tangible asset includes the costs initially estimated regarding the disassembly and moving such upon decommissioning as well as upon restoring the location on which the fixed asset is located when these amounts can be estimated in a credible manner and the company has an obligation regarding the disassembly, the displacement of the tangible asset and the restoration of the location.

The maintenance and the repair works of the tangible asets are recorded within the expenses when they occur, while the significant improvements made for the tangible assets which increase the value or their operating life or which significantly increase the capacity for generating economic profits are capitalized.

The fixed assets such as stock objects, including tools or instruments, are recorded within the expenses at the moment when they are commissioned and they are not included within the accounting value of the tangible assets.

(2) Depreciation

The depreciation is calculated based on the accounting value, using the straight-line method throughout the estimated operating life of the assets, except for the tangible assets which benefit from the provisions of law no. 332/2001 regarding the investments having a significant impact upon the economy.

The tangible assets benefiting from the provisions of law no. 332/2001 regarding the investments having a significant impact upon the economy are depreciated using the accelerated method.

The economic life used for various categories of fixed assets are the following:

Asset	**Years**
Buildings and constructions	5 - 45
Technical equipment and machines	3 - 20
Other equipment, machinery and furniture	3 - 30

The depreciation is calculated starting from the month following the commissioning and until the total recovery of their accounting value.

Regarding the tangible assets are meant to be preserved, the expenditure shall be registered with the depreciation.

Land lots are not depreciated because thay are considered to have an unlimited operating life.

6. ACCOUNTING PRINCIPLES, POLICIES AND METHODS (CONTINUED)

(3) Sale/decomissioning of tangible assets

The tangible assets which are decommissioned or sold are removed from the balance sheet together with the corresponding depreciated cumulated. Any profit or loss resulting from such on operation is included in the current profit and loss account.

(4) When the company acknowledges within the accounting value of a tangible asset the cost of a partial replacement (the replacement of a component), the accounting value of the recplaced part together with the corresponding depreciation will be decommissioned.

(5) Indebtedness costs

The expenses corresponding to the interests related to all the loans are registered as expenditure at the moment whne they are generated.

E. Depreciation of the tangible and intangible assets

Upon the completion of the financial year, the value of the tangible and intangible asset items is harmonized with the results of the stock keeping. In this sense, the net accounting value is compared with the value established on the basis of the stock keeping also called stock value. The minus difference between the stock value and the net accounting value of the fixed asset items are registered within the accounting system on the basis of an additional depreciation if the assets which can be depreciated for which the depreciation is irreversible or an adjustment is carried out for the depreciation or the decrease in value when the depreciation is reversible. The stock value is established depending on the use of the good, its condition and the market price.

F. Capital assets

The capital assets include the assets held with the affiliated entities, the loans granted to the affiliated entities, the participating interests, the loas granted to the entities to which the company is linked based on the participating interests as well as the investments held as fixed assets.

The capital assets are acknowledged within the balance sheet at the purchase price or the value determined by the contract for being granted such. The purchase cost also includes the trading costs. The capital assets are assessed subsequently at the input value minus the cumulated adjustments for the permanent loss of value.

G. Stocks

The stocks are registered at the lowest value between the cost and the net achieved value. The cost is calculated on the basis of the first in- first out method (FIFO). Where necessary, provisions for slow moving stocks, obsolescent stocks or worn stocks.

H. Trade receivables

The trade receivables are recorded at the invoiced value, when they are considered achievable, less the provision for the impairment for such receivables. The provision for the impairment of the trade receivables is created if there is objective evidence regarding the fact that the company shall not be able to collect all the amounts at the initial deadlines.

I. Short term financial investments

These inclid the short term bank deposits and other short term investments (bonds, shares and other securities purchased for the purpose of ensuring a profit within a short period of time). The short time securities accepted for trading operations on a regulated market are evaluated on the date of the balance sheet at the quotation value on the last day of trading, and the untraded securities are evaluated at the historic cost minus the possible adjustments for the decrease in value.

J. Cash and cash equivalents

The cash and the cash equivalents are pointed aut within the balance sheet on the basis of the cost. For the statement regarding the cash flow, the cash and the cash equivalents include the petty cash, the cash within bank accounts, short term financial investments, net of overdraft account. Within the balance sheet, the overdraft account is presented within the debts which should be paid within one year – amounts due to credit institutions.

K. Share capital

The common shares are classified within the equity.

L. Dividends

The dividends are registered within the period when they are declared.

M. Loans

The short and long term loans are initially recorded at the received amount, the net of the costs corresponding to the grating of the loan. Within the following period, the loans are registered at the depreciated cost using the method of the actual return, the differences between the amounts received (net of the corresponding costs) and the normal redemption value being acknowledged within the profit and loss account during the period of the loan contract.

The short term part of the long term loans is classified under “Debts which should be paid within one year” and included together with the accumulated interest at the date of the accounting balance sheet under "Amounts owed to credit institutions" in the current debts.

N. The accounting of the leasing contracts in which the company is the lessee

(1) The financial leasing contracts

The leasing contracts for the tangible assets for which the company undertakes all the risks and benefits corresponding to the property are classified as financial leasing contracts. The financial leasing is cpaitalized at the estimated updated value of the payments. Each payment is divided between the capital element and the interest element in order to be granted a constant interest rate thorughout the period of the reimbursement. The amounts due are included within the short or long term debts. The interest element is included within the profit and loss account throughout the priod of the contract. The assets owned within the financial leasing contract are capitalized and depreciated throughout their functional life.

(2) The operational leasing contracts

The leasing contracts in which a significant part of the risks and the benefits associated with the property are retained by the lessor and are classified as operational leasing contracts. The payments carried within such a contract (net of every facilities granted by the lessor) are acknowledged within the profit and loss account on a straight basis during the period of the contract.

O. Trade debts

The trade debts are recorded at the value of the amounts which are to be paid for the goods or services received.

P. Provisions

The provisions are acknowledged at the moment the company has a legal or implicit obligation generated by a previous event when in order to settle the obligation it is probably necessary to use a resource output and when a credible estimate could be made regarding the value of the obligation.

The value of the provisions regarding the pension rights is settled by the relevant specialists (actuaries).

Q. The employees' benefits

(1) The benefits granted upon retirement

Within the normal carrying aut of the operations, the company carried out payments to the state health, retirement and unemployment funds into the account of its employees at the statutory rates. All the employees of the company are members of the retirement plan of the Romanian state. These accounts are acknowledged within the profit and loss account once the salaries are also acknowledged.

On the basis of the collective labour contract, the company undertook to pay to its employees at the moment of theri retirement an amount representing a multiple of their gross salary, depending on their work seniority with the company, the labour conditions, etc. In this sense, the company recorded a provision for the retirement benefits. This provision has been calculated on the basis of actuarial method depending on the estimated average salary, the average number of salaries to be paid upon retirement (depending on the number of employees which is expected to retire from the company), the estimated period when such shall be paid and has been brought tp the present value using an updading factor based on the interest corresponding to investments with a maximum level of safety (sovereign debts). According to the Order of the Minister of Public Finance 3055/2009 (respectively Order of the Minister of Finance 2374/2007), the value of the provision of December 31st, 2010 and December 31st, 2009 was calculated by a company specialized in this field, S.C. GELID ACTUARIAL COMPANY S.R.L. in Bucharest.

On the basis of the collective labour contract and of Law 571/2008 regarding the Fiscal Code, starting in October 2008, the company payd a contribution to the optional retirements funds – IIIrd pillar, for each employee within the threshold amount representing the equivalent of 200 Euros/year.

Starting on November 2008, the company has concluded a voluntary health insurance of additional type, for its employees on the basis of the collective labour contract and of the provisions of Law 571/2003 regarding the Fiscal Code, for which it pays the equivalent of the amount of 200 Euros/year for each employee.

R. Compensations and barter transactions

A part of the receivables resulting from the sales are compensated with other companies either via a series of transactions which doe not involve cash (mutual compensations) or to a lower extent via direct transactions with goods and/or services, concluded with the final client (barter). Such transactions are excluded from the cash flows presented by the company within the cash flow statements. Appromatively 0.07% of the receivables achieved during the first quarter of 2011 (2% in 2010) were compensated in this way.

S. Subsidies

(1) Subsidies corresponding to the assets

The subsidies received for the purpose of purchasing asets such as tangible assets are recorded as subsidies for investment within the accounting balance sheet and are acknowledged in the profit and loss account as the expenses regarding depreciation are recorded or when the retirement or the sale of the assets purchased from the respective subsidy takes place.

(2) Subsidies corresponding to the income

The subsidies corresponding to the income are presented as an income within the profit and loss account for the period corresponding to the corresponding expenses which these subsidies will compensate.

T. Tax

(1) Current tax profit

The company records the current profit tax on the basis of the profit taxable from the tax reports according to the relevant Romanian laws.

U. Acknowledgement of incomes

The incomes refer to the services provided and the goods sold.

The incomes corresponding to the services provided are acknowledged on the basis of the completion stage, expressed in percentage from the total incomes corresponding to the service contract, the percentage being determined function of the ratio between the services provided until the date of the balance sheet and the total services which should be performed.

The incomes from the sale of goods are acknowledged at the moment when the company has transferred to the buyer the main risks and benefits associated with the ownership of the goods. The amounts cashed in from the beneficiaries for connecting such to the national natural gas transport network are initially recorded as subsidies for investments and resumed under incomes throughout the functional period of the asset.

The incomes from delayed payment penalties are acknowledged at the moment they occur; due to the high level of uncertainty, these incomes are considered to be achieved at the moment of their being cashed in.

The interest incomes are acknowledged periodically, proportionally when the respective income if generated on the basis of the accrual-based accounting.

The dividends received by the company are acknowledged as incomes at the moment when the legal right to receive such amounts is set.

In such financial statements, the incomes and the expenses are presented at their gross value. Within the accounting balance sheet, the debts and the receivables from the same partners are presented at the net value at the moment when there is a compensation right.

V. Turnover

The turnover represents the amounts invoiced and to be invoiced, net of VAT and trade discounts for the goods delivered or the services performed for third parties.

W. Operating expenses

The operating expenses are acknowledged throughout the period to which they refer.

X. The just value of the financial instruments

The financial instruments outlined within the accounting balance sheet include the petty cash and the bank accounts, the trade receivables and other receivables, the trade debts and other debts, as well as the amounts owed to credit institutions. The specific methods for acknowledgement are presented within the individual policies corresponding to each element.

6. CONTRIBUTIONS AND FINANCING SOURCES

a) Participation certificates, securities, convertible bonds

The company did not issue any participation certificates, bonds or other securities except fir the own common shares.

b) Share capital

During 2009, the share capital was not amended in any way.

The shareholding structure communicated by the Depozitarul Central S.A. on June 30th, 2011 is presented as follows:

	Number of shares	Amount (RON)	Percentage (%)
The Romanian State via the Ministry of Economy, Commerce and the Business Environment	8.654.917	86.549.170	73,5097
Shareholders – natural persons	622.506	6.225.060	5,2872
Shareholders – legal persons	731.801	7.318.010	6,2155
SC Fondul „Proprietatea" SA	1.764.620	17.646.200	14,9876
	11.773.844	**117.738.440**	**100,0000**

All the shares are common, they have been subscribed and they are fully paid up on June 30th, 2011. All the shares have the same voting right and they have a nominal value of 10 RON/share (December 31st, 2010: 10 RON/share).

Fondul Proprietatea

On the bases of Law 247/2005, title VII article 6 and article 12, of the Government Decision no. 1481/2005, SC „Fondul Proprietatea" SA was set up, the initial share capital of such being made up of the shares provided under article 3 paragraph (1) letter a) – e) of title VII of Law 247/2005.

According to the legal provisions, the Ministry of Economy and Commerce took part in 2005 in the set up of the initial capital of Fondul Proprietatea with shares from multiple trading companies included in its portfolio. According to the provisions under point 1.2 of Appendix to Title VII of Law no. 247/2005, the Ministry of Economy and Commerce contributed to the set up of the capital of SC Fondul Proprietatea SA with shares representing 15% of the share capital of Transgaz at that date.

Listing with the Bucharest Stock Exchange

In 2007 the company increased its share capital by 10%, respectively with a number of 1.384.956 shares, via a public offer of shares; the shareholder Fondul Proprietatea used its preemptive right proportional to the contribution share to the share capital, respectively for a number of 207.572 shares, while the rest of 1.177.384 shares were publicly offered via the sale of shares, carried out during the period November 26th - December 7th, 2011. After the public offer carried out, the share capital increased from 103.888.880 RON to 117.738.440 RON, according to the Certificate of recorded amendments no. 51657 / December 27th, 2007 being granted by the Sibiu Trade Register Office.

7. CONTRIBUTIONS AND FINANCING SOURCES (CONTINUED)

From January 24th, 2008, the amount of 1.177.384 shares are traded with the Bucharest Stock Exchange. On June 30th 2011 the number of the shares which are traded at the Bucharest Stock Exchange amounts to 1.354.307 (31st December 2010: 1.354.254).

c) Bonds

The company did not have bonds issued on June 30th, 2011 nor on December 31st, 2010.

8. INFORMATION REGARDING THE EMPLOYEES, DIRECTORS AND MANAGERS

a) The allowances granted to the members of the board of directors, management and surveillance bodies

	On 30th June 2010 (RON)	On 30th June 2011 (RON)
Salary expenditure:	1.586.928	1.876.911
Directors	2.010	1.876
Managers	1.584.918	1.875.035

	Financial year ended on December 31ST 2010 (RON)	On 30th June 2011 (RON)
Salaries to be paid at the end of the period:	142.516	150.819
Directors	235	-
Managers	142.281	150.819

The company concluded contracts for professional liability insurance for a number of 54 persons which are members of the company's management team. The policy was concluded with S.C. Carpatica Asig S.A. Sibiu, declared a winner after applying the procedure "request for proposal". The total insured amount was 55.000.000 Euros, for an insurance premium of 75.000 Euros/year.

b) The advance premiums and the credits granted to the members of the board of directors, management and surveillance bodies

Throughout the financial year, no advance payments or credits have been granted to the directors and the management team of the company, except for the advance payments of the salaries and for the business travels carried out for the company, and these do not own any amount to the company at the end of the year generated by such advance payments.

The company does not have any contractual obligations regarding the retirement allowances to the former managers and directors of the company.

8. INFORMATION REGARDING THE EMPLOYEES, DIRECTORS AND MANAGERS (CONTINUED)

c) The employees

In 2011, the company had an average number of 4,947 employees (financial year ended on December 31st, 2010: 4.962).

The employees are further analyzed as follows:

	2010	2011
Administrative personnel	1.193	1.206
Directly and indirectly productive personnel	3.769	3.741
	4.962	**4.947**

	On 30th June 2010 (RON)	On 30th June 2011 (RON)
Employee salary expenditure	88.723.752	90.462.616

	Financial year ended on December 31ST 2010 (RON)	On 30th June 2011 (RON)
Salaries to be paid at the end of the period:	10.721.395	8.188.078

According to the collective labour contract, the company offers to the employees certain retirement benefits depending on the labour seniority in the natural gas industry and other benefits which have been described under note 6Q. As it is described in Note 2, the company creates provisions corresponding to these benefits on the basis of the current value of the future obligations to the employees.

9. ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS

1. Liquidity indicators

a) Indicator of the current liquidity

	Financial year ended on December 31ST 2010	On June 30th 2011
Current assets / Current debts =	1,57	1,26

9. ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS (CONTINUED)

b) Indicator of immediate liquidity

	Financial year ended on December 31ST 2010	On June 30th 2011
(Current assets - Stocks) / Current debts =	1,49	1,19

2. Risk indicators

a) Indicator of the indebtness degree

	Financial year ended on December 31ST 2010 (%)	On June 30th 2011 (%)
Borrowed capital / Own capital x 100 =	3,04	3,61

Where:

- borrowed capital = credits over one year.

b) Indicator regarding the interest coverage

	Financial year ended on December 31ST 2010	On June 30th 2011
Profit prior to the payment of the interest and the profit tax / Interest expenditure =	83,66	71,37

3. Operation indicators (management indicators)

a) Debt turnover - clients

	Financial year ended on December 31ST 2010 (days)	On June 30th 2011 (days)

Average balance - clients x 180 = / Turnover	97	74

b) Credit turnover - supplier

	Financial year ended on December 31ST 2010 (days)	On June 30th 2011 (days)
Average balance - suppliers x 180 = / Purchases of goods and services	38.90	33.23

9. ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS (CONTINUED)

c) Turnover of fixed assets

	Financial year ended on December 31ST 2010	On June 30th 2011
Turnover = / Fixed assets (including the public domain)	0,48	0,26

d) Turnover of total assets

	Financial year ended on December 31ST 2010	On June 30th 2011
Turnover = / Total assets (including the public domain)	0,34	0,18

4. Profitability indicators

a) Profitability of the used capital

	Financial year ended on December 31ST 2010 (%)	On June 30th 2011 (%)
Profit prior to the payment of the interest and the profit tax = / Used capital	17,15	11,93

b) Gross sales margin

	Financial year ended on December 31ST 2010 (%)	On June 30th 2011 (%)
Gross profit from sales = / Turnover	34	44

5. Indicators regarding the result per share

a) Basic/diluted earnings per share

	Financial year ended on December 31ST 2010	On June 30th 2011
Profit of the financial year / Average number of shares =	31,97	21,68

9. ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS (CONTINUED)

b) Ratio between the market price of the share and the result per share

	Financial year ended on December 31ST 2010	On June 30th 2011
Market price of the share / Result per share =	7,06	12,06

10. OTHER INFORMATION

a) Presentation of the company

The company Transgaz S.A. Mediaş has its office in Piaţa C.I. Motaş nr. 1, Mediaş, jud. Sibiu, Romania.

On the basis of the Government Decision no. 334/2000, Transgaz S.A. is the legal successor of the former S.N.G.N. ROMGAZ S.A., which divided into five independent trading companies, legal persons, set up function of the the main business area, respectively: exploration – production, transport – transit - dispatching, respectively storage and gas distribution.

Transgaz S.A. has as a main business object the transport, transit and dispatching of the natural gas and is the technical operator of the national natural gas transport system, in which quality it should ensure the proper, safe, efficient operation of the system, ensuring at the same time the protection of the environment.

According to article 8 of the Oil Law no. 134/1995, the National gas transport system (“SNTG”) is part of the state public domain and has a strategic importance. According to Law no. 219/1998 regarding the regime of the concessions, corroborated with Law no. 134/1995, the goods which are part of the public domain of the state could be transferred.

b) Information regarding the relations of the company with the subsidiaries, associated companies or with other companies in which strategic participating titles are owned

The company’s contributions are described in Note 1 (c) – “Capital assets”. There are no other companies associated or companies in which strategic participating titles are held.

c) The method used for expressing in national currency the patrimony elements, the income and the expenses indicated in foreign currency

The method used for expressing in national currency the patrimony elements, the income and the expenses indicated in foreign currency is presented under Note 5 B.

10. OTHER INFORMATION (CONTINUED)

The main exchange rates used for exchanging into RON the balances in foreign currency on December 31st, 2010 and on June 30th, 2011 are the following:

Foreign currency	Abbreviation	Exchange rate (RON for 1 unit of foreign currency) December 31st 2010	June 30th 2011
US dollar	USD	3,2045	2,9259
European Unique Currency	EUR	4,2848	4,2341

d) Information regarding the current profit tax

	On 30th June 2010 (RON)	On 30th June 2011 (RON)
Total income	728.728.090	764.040.145
Total expenses	(463.288.307)	(508.760.665)
Net accounting profit	265.439.783	255.279.480
Non-taxable income	(76.822.886)	(69.116.450)
Legal reserve	-	-
Nondeductible expenses	131.466.782	134.577.803
Taxable profit	320.083.679	320.740.833
Calculated tax profit	51.213.389	51.318.533
Fiscal credit:		
amounts representing sponsorship	(1.843.029)	(1.466.000)
Current tax profit	49.370.360	49.852.533

The tax rate is 16% in borht presented years.

10. OTHER INFORMATION (CONTINUED)

e) Turnover

Presentation of the turnover based on types of operations:

	On 30th June 2010 (RON)	**On 30th June 2011 (RON)**
Income from transport services and national gas transit services	688.155.260	707.076.565
Income from various activities	2.391.735	5.554.116
	690.546.995	**712.630.681**

f) Expenses corresponding to the rent and the royalties pais within the concession contracts

The company has had the following expenses:

	On 30th June 2010 (RON)	**On 30th June 2011 (RON)**
Rents	513.243	462.824
Royalty	68.815.526	70.707.656
	69.328.769	**71.170.480**

g) Fees paid to the auditors

In the first quarter of 2011, the company paid to the auditors fees amounting to 138,000 RON for the statutory financial audit according to the Order of Minister of Finance 3055, for the year 2010.
The fees do not include VAT.

10. OTHER INFORMATION (CONTINUED)

h) Possible debts and granted commitments

Commitments

The company has long term contracts concluded for the provision of international tranzit services with Gazexport and Gazprom from the Russian Federation. The value of the services is established yearly on the basis of the tranzit capacity ordered for the respective year.

Warranties granted to third parties

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Endorsements and warranties granted	6.769.456	6.190.311

The endoirsements and warranties granted represent warranty letters granted for the benefit of the clients as an obligation under the natural gas transport service contracts as well as for the benefit of the providers of fixed assets.

i) Commitments received

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Endorsements and warranties granted	42.993.224	42.836.688

The endorsements and the warranties received represent warranty letters and restricted bank deposits created as a performance bond by the tangible asset providers as well as receivable transfers for the benefit of the company.

11. TRADE RECEIVABLES

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Trade receivables – internal clients	347.000.812	193.689.364
Trade receivables – external clients	24.098.653	19.893.074
Provisions for the depreciation of the trade receivables	(52.938.683)	(40.610.098)
	318.160.782	**172.972.340**

As it is provided under Note 17, a part of the company's receivables are created as a warranty in favour of certain banks for the loans granted to the company.

12. OTHER RECEIVABLES

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Non-eligible VAT	3.386.101	4.535.020
Interests to receive	33	6
Other receivables	14.823.505	17.030.290
Provisions for the depreciation of other receivables	(2.651.363)	(2.651.363)
	15.558.276	**18.913.953**

13. CASH AT BANK AND IN HAND

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Cash assets at bank in RON	24.358.988	9.833.107
Cash assets at banks in foreign currency	1.201.537	14.992.912
Cash in hand	126.276	157.087
Other amounts	68.435	163.456
	25.755.236	**25.146.562**

For the purpose of presenting the statement of the cash flow, the cash and the cash equivalents include the following elements:

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Cash at bank and in hand	25.755.236	25.146.562
Short term bank deposits	171.755.392	517.072.838
	197.510.628	**542.219.400**

14. TRADE DEBTS WHICH SHOULD BE PAID WITHIN ONE YEAR

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Internal providers of fixed assets	45.934.147	13.942.014
Internal providers	88.634.171	64.293.678
External providers	141.720	5.393.685
Internal providers – unreceived invoices	19.812.327	23.488.450
	154.522.365	**107.117.827**

15. OTHER DEBTS, INCLUDING FISCAL DEBTS AND DEBTS FOR THE SOCIAL INSURANCE WHICH SHOULD BE PAID WITHIN ONE YEAR

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Profit tax	22.126.286	12.358.700
VAT to be paid	16.739.091	5.919.255
Other taxes and fees	38.292.013	23.702.032
Social insurance	7.965.196	6.704.973
Salary tax	3.055.375	2.558.195
Penalties for dividends unpaid corresponding to the years 2000-2003 and 2006	51.717.551	51.717.551
Owed dividends	4.913.154	343.124.483
Other debts	14.694.561	12.189.459
	159.503.227	**458.274.648**

Penalties for the failure to timely pay the dividents

During the years 2000, 2001, 2002 and 2003, the company declared yearly dividents which it paid in installments considering them as a debt to the shareholder. The Ministry of Economy and Commerce, as a shareholder, considered these debts as being budgetary and calculated penalties for their delayed payment.

In November 2005, upon the shareholder's request, the company recorded the amount of 45.483.318 RON representing these penalties. During 2006, the company paid made a delayed payment regarding the dividens for the year 2005 and the shareholder cashed in delay penalties amounting to 6.234.233 RON recorded by the company for that year.

16. SHORT TERM AMOUNTS DUE TO CREDIT INSTITUTIONS

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Current part of the long term loans (Note 17)	38.771.406	47.539.269
Interests to be paid	171.199	44.875
	38.942.605	**47.584.144**

The short term loans of the Company are analyzed below:

Bank	Currency	Contract term	Interest	June 30th 2011 (RON)
Current account credits				
BRD Societe Generale	RON	August 31ST 2011	Romanian Interbank Offer Rate at 1 year + 0.90% per year	-

The credit with BRD Group Societe General has a threshold of 45.000.000 RON and is available until August 31st, 2011. On June 30th, 2011, the company had not drawn amounts from that credit.

17. AMOUNTS DUE TO CREDIT INSTITUTIONS WHICH SHOULD BE PAID IN A PERIOD EXCEEDING ONE YEAR

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Long term loans	117.480.932	137.846.977
Current part of the long term loans (Note 16)	(38.771.406)	(47.539.269)
	78.709.526	**90.307.708**

The long term part of the loans is reimbursable as follows:

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Between 1 and 2 years	33.409.526	30.307.708
Between 2 and 5 years	45.300.000	60.000.000
	78.709.526	**90.307.708**

The long term loans are analyzed below:

	December 31ST 2010 (RON)	June 30TH 2011 (RON)
Loan from the International Bank for Reconstruction and Development	4.917.776	3.373.295
Loan from UniCredit Tiriac	37.063.156	26.473.682
Loan from BRD G.S.G.	75.500.000	108.000.000
	117.480.932	**137.846.977**

Loan from the International Bank for Reconstruction and Development

The loan from the International Bank for Reconstruction and Development ("IBRD" – RO 3723) was granted for the rehabilitation of the petrol and gas domain in Romania within a Loan Agreement signed on June 1st, 1994.

The entire loan should have been paid back by SNGN Romgaz as a holding company of the entities within the Romgaz group. According to the Government Decision 334/2000 and following the restructuring of the gas sector, a part of this loan has been transferred to the newly set up companies. The part of the IBRD credit acknowledged by the company is based on an agreement concluded between the companies detached from the Romgaz group following the latest reorganization.

17. AMOUNTS DUE TO CREDIT INSTITUTIONS WHICH SHOULD BE PAID IN A PERIOD EXCEEDING ONE YEAR (CONTINUED)

On October 2nd, 2001, the company concluded a Subsidiary Loan Agreement with the Ministry of Public Finance regarding its part of the loan. According to this Subsidiary Loan Agreement, the company shall reimburse the due installments and the corresponding interest to the Ministry of public Finance 15 days prior to the payments which the Ministry will carry out to the IBRD.

The loan is carried out in USD (balance on June 30th, 2011: 1.152.908,39 USD) and has an interest of 0.5% over the cost of the Qualified Loans as IBRD stipulates. The interest rate applicable for 2010 was approximately 9.50%.

The loan was totally drawn and partially paid until June 30th, 2011.

The interest shall be paid in RON to the Ministry of Public Finance, the exchange rate taken into account being the one communicated by the National Bank of Romania, valid at the due date to IBRD. A commission of 10% of the amount of the payable interest is due to the Ministry of Public Finance.

According to the Subsidiary Loan Agreement, the loan is guaranteed via a deposit equal to the amount of the following reimbursable installment. On June 30th, 2011, a deposit of 500,000 USD was created.

Loan from UniCredit Tiriac

The loan was contracted in October 31st, 2007 following a public tender, with a margin of 0% over the ROBOR interest for 3 months and was meant for partially financing the company's investment program. The contracted amount was 100.600.000 RON, an amount completely drawn until December 31st, 2008. The reimbursement started in March 2008, in 19 quarterly installments.

Loan from BRD Group Societe Generale

The loan was contracted on December 16th, 2010 following a public tender procedure, with a margin of 0.5% over the ROBOR interest for 3 months and was meant for partially financing the company's investment program for the period 2010 – 2011. The contracted amount of 120.000.000 RON, was completely drawn until April 30th, 2011. The reimbursement started in March 2011 and shall be completed by 2015.

For the loans from BRD G.S.G. and Unicredit Tiriac warranties were granted under the form of the assignment of claims on the natural gas transport contract carried aut by Transgaz with its clients as follows:

Creditor	**Assignment of claims**
Unicredit Tiriac	Interagro SA
	Electrocentrale Galaţi SA
	Termoelectrica SA
	E.On Gaz România SA
BRD – long term loan	GDF SUEZ Energy Romania SRL
BRD – line of credit	Azomures SA

17. AMOUNTS DUE TO CREDIT INSTITUTIONS WHICH SHOULD BE PAID IN A PERIOD EXCEEDING ONE YEAR (CONTINUED)

Interest rate

The exposure to the risk concerning the variation of the interest rates and the actual interest rate are presented as follows:

	Financial year ended on December 31ST, 2010 (RON)	On June 30th, 2011 (RON)
Total loans:		
Variable interest rate	117.480.932	137.846.977
Fixed interest rate	-	-
	117.480.932	**137.846.977**

	Financial year ended on December 31ST, 2010 (RON)	On June 30th, 2011 (RON)
Actual interest rate:		
Long term loans - USD	4,94	3,56
Long term loans - EUR	5,89	3,79

The accounting amount of the long term part of the loans is approximately the same as their just value.

18. OTHER DEBTS, INCLUDING FISCAL DEBTS AND LONG TERM DEBTS FOR THE SOCIAL SECURITY SYSTEM

	December 31ST 2010 (RON)	June 30th 2011 (RON)
Obligations within the concession contracts (Note 1 a))	482.787.647	482.787.647
Other debts	2.727.549	2.948.248
	485.515.196	**485.735.895**

19. OTHER EXPENSES

	Financial year ended on December 31ST 2010 (RON)	**Financial year ended on December 31ST 2011 (RON)**
Gas grant	24.509.326	25.383.326
Subsidies and donations	1.843.029	1.466.000
Expenses corresponding to the transfer of fixed asset	579.697	1.108.097
Incomes from the sale of assets	(53.441)	(39.410)
Other fines and compensations	37.778	25.650
Other operating expenses	4.487.394	4.814.330
	31.403.783	**32.757.993**

Gas grant: According to the collective labour contract, the company's employees receive yearly a financial grant equal to the value of 6,500 c.m. of natural gas. The grant is paid in monthly installments, at the day's price of the natural gas.

FINANCIAL RISK MANAGEMENT

Financial risk factors

Due to the type of operations carried out, the company is exposed to various risks including the following: the credit risk, the currency risk, the interest rate risk and the liquidity risk. The management of the company intends to reduce the potentially adverse effects associated with these risk factors upon the financial performance of the company.

a. *The credit risk*

The company is subject to a credit risk due to its trade receivables and the other types of receivables. The references regarding the creditworthiness of the clients are normally obtained from all the new clients, the due date of the debts is carefully monitored and the amounts due after the deadline is exceeded are promptly tracked.

b. *The currency risk*

The company is subject to variations in the exchange rate through the debt generated by the loans or the trade debts expressed in foreign currency. Due to the associated high risks, the company's policy is not to use financial instruments for reducing this risk.

c. *The interest rate risk*

The financial cash flows of the company are affected by the variations in the interest rate mainly due to the loans having a variable interest rate (Notes 16 and 17). The company does not use financial instruments in order to protect itself from the variation of the interest rate.

d. *The liquidity risk*

The cautious management of the liquidity risk involves maintaining sufficient cash and available crddit lines (Note 16). Due to the type of operations, the company intends to have flexible financing options, by maintaining available credit lines for financing the operating activities.

20. CONTINGENCIES

(a) Lawsuits

The company is subject to different lawsuits resulting from the normal carrying out of the operations. The company's management considers that these assets shall not have a significant adverse effect upon the economic results and the financial position of the company, in addition to the amounts recorded within these financial statements.

(b) Taxes

The Romanian tax system has undergone multiple changes during recent years and is in a state of harmonization with the European Union jurisprudence. However, there are still different construals of the fiscal laws. Under certain circumstances, the fiscal authorities can differently approach various aspects, proceeding to the calculation of certain taxes and additional taxes and interests and corresponding delay penalties (currently, penalties determined on tha basis of the period of the delay plus 0.04% delay interest per day). In Romania, the financial year remains open for the fiscal check for a period of 5 years. The company's management considers that the fiscal obligations included in these financial statements are appropriate.

(c) Contingencies regarding the environment

The regulations regarding the environment are undergoing harmonization with the UE laws in Romania. The company's management does not consider that the expenses associated with the possible environemtn problems as being being significant; as a result, the company did not register any obligations on June 30th, 2011 and December 31st, 2010 for any anticipated costs, including legal fees and consyultancy fees, feasibility studies, the design and implementation of remedy plans, regarding the environmental elements.

(d) The worldwide financial crisis

The current worldwide liquidity crisis which started in mid 2008 lead, among others, to a low level of financing for the capital market, low levels of liquidity in the bank sector and, occasionally, higher rates for the interbank loans and a very high volatility of the stock exchanges. At the same time, the volatility of the RON exchange rate and of the main currencies used for the international exchanges was very high. Currently, the entire impact of the current financial crisis is impossible to anticipate and fully prevent.

The management cannot reliably estimate the effects upon the financial position of the company of an increase in the volatility of the exchange rate of the national currency, the increase in the interest rate and the continued recession. The management considers that it has taken all action necessary in order to minimize the effects of these uncertainties on the company's operations.

21. CONTINGENCIES (CONTINUED)

(e) Other contingencies

During the period May 2000 - June 2004, the company had a development share amounting to 226.300.000 RON and it took over from Romgaz SA (at the moment of separating as a legally different entity) the amount of 63.200.000 RON as development share. During its operations, the company financed the investments in tangible assets from its own sources (including the development share), there being no distinct evidence regarding the fixed assets purchased from the funds set up strictly from the development share. The company has not set up a development share from July 2004.

The decision of the Fiscal Commission to approve the unitary solution regarding the accounting and fiscal treatment of the reserves resulting from the set up of the development share (Decision 4 of July 2004) states that the amounts deduced under this form (development share) and recorded in the reserve accounts are like investment subsidies, both from an accounting point view and a fiscal point of view. This implies that as the assets financed from this sources are depreciated or as they are reduced from the accounting the respective reserves are recorded as incomes (with the same amount like the amounts recorded for the expenses regarding the depreciation).

The company's management considers that the treatment provided by the fiscal decision 4 is applicable only to the development share created after the application of such decision, thus, it does not apply to the company, which did not create funds from the development share after July 2004.

President of the Board of Directors
Victor Alexandru Schmidt

General Manager
Florin Cosma

Manager of Economic Department
Radu Moldovan