



## **S.N.T.G.N. TRANSGAZ S.A.**

a joint stock company registered in Romania under no. J32/301/2000

### **OFFERING PROSPECTUS**

regarding the Initial Public Offering of Shares having attached Allotment Rights of  
S.N.T.G.N. TRANSGAZ S.A.

at an offering price of 191.92 RON for each Share (nominal value of RON 10)

**OFFERING PERIOD 26 November – 7 December 2007**

**APPROVED BY THE NSC ACCORDING TO THE DECISION NO. 2199 OF 14 November 2007**

*Manager*

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*Technical Advisor*



*Financial Advisor*



*General Legal Advisor (excepting the Allotment Rights issues)*



*Legal Advisor for Allotment Rights related issues*



*Distribution Group*



THE AUTHORIZATION ENDORSEMENT ON THE PUBLIC OFFERING PROSPECTUS SHALL NOT BE CONSTRUED AS A GUARANTEE, NOR REPRESENTS OTHER FORM OF APPRECIATION BY THE N.S.C. WITH RESPECT TO THE OPPORTUNITY, ADVANTAGES OR DISADVANTAGES, PROFIT OR RISKS THAT MAY BE IMPLIED BY THE TRANSACTIONS TO BE CONCLUDED BY ACCEPTING THE PUBLIC OFFERING SUBJECT TO THE AUTHORIZATION DECISION; THE AUTHORIZATION DECISION CERTIFIES ONLY THE COMPLIANCE OF THE PROSPECTUS WITH THE LEGAL REQUIREMENTS AND THE NORMS ADOPTED FOR THE APPLICATION THEREOF.

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## NOTICE TO INVESTORS

This Prospectus (the “Prospectus”) contains information regarding the share capital increase by an initial primary public offering for the sale of shares initiated in Romania by S.N.T.G.N. Transgaz S.A. (“Transgaz” or the “Issuer”), a joint stock company registered at the Register of Commerce under no. J32/301/2000, having a share capital of RON 103,888,880, divided in 10,388,888 ordinary nominal shares with a nominal value of RON 10, in dematerialized form.

The Offered Shares, namely 1,177,384 newly issued shares each with a nominal value of RON 10 are subject to an initial primary public offering for sale on the Romanian capital market (the „Offering”).

The Issuer made all the necessary efforts in order to make sure that the information contained in the present Prospectus are true and correct and not misleading in any material respect. The information included in the present Prospectus present the Issuer’s status as of the reference date 30 June 2007, while for the information regarding the determination of the regulated transport tariff for the second regulation period, the concession and licenses specific to the natural gas transport activity and the Issuer’s organisation, the reference date is 30<sup>th</sup> October 2007. The Issuer expressly declines any liability to add information or additions regarding any change that may occur in its status after this reference date. After having checked the present Prospectus, the Issuer assumes the liability for its content and confirms the truthfulness, correctness and accuracy of the information contained herein.

The prospectus contains the Issuer’s audited financial statements according with the international financial reporting standards (“IFRS”), as they were adopted by the European Union, for the last three years, ended with 31<sup>st</sup> December 2006 and the reviewed financial statements for the six months period ended on 30 June 2007, drafted according with IFRS.,

In the appendices to this prospectus, the financial statements drafted according with the Romanian Accounting Standards for the sixth months of 2007 (unaudited) and for the financial years ended with 31 December 2006 (audited), 31 December 2005 (audited) and 31 December 2004 can be found.

Because the Issuer published the unaudited financial statements drafted according with the Romanian Accounting Standards for the 9 months period ended with 30 September 2007, this financial information was included in the appendices to this prospectus.

The Intermediary has made all the necessary efforts within the due diligence procedures in order to make sure that, according to the documents and information made available by the Issuer, the information included in the Prospectus are true and do not contain omissions that may significantly influence the content of the Prospectus. The Intermediary and its Advisors do not assume any liability regarding the Issuer’s future performance. Nothing in this Prospectus shall be construed as a recommendation to invest, as an opinion of the Intermediary and of its Advisors on the Issuer’s status, or as legal, tax, commercial or financial advice.

Each potential investor should perform, through its own means, an independent assessment of the Issuer and of the Offering terms that should not be based only on the information contained in this Prospectus. The Issuer, the Intermediary and its Advisors recommend to potential Investors to consult with their own advisors with respect to the

legal, fiscal, commercial or financial aspects before making a decision to invest in the Offered Shares.

The Issuer states that the non disclosure of any information related with contracts classified as work related classified information, or which is classified or is under some confidentiality clauses will not affect the investors' capacity to fair value the Issuer's: assets and liabilities, the financial situation, the profit or loss, the Issuer's perspectives and of the entity which guarantees the Issuer's commitment to its obligations, if the case, as well as for the rights related with the Offered Shares.

No person is authorized by the Issuer or the Intermediary to give any information or to make any representation or assessment not contained in this Prospectus. The disclosure of such information, representation or assessment not contained in this Prospectus should be considered as being made without the authorization of the Issuer or the Intermediary, which assume no liability in this respect. At the same time, it should be taken into account that the Issuer's status, as well as the data and information included in this Prospectus, may be subject to changes after the National Securities Commission ("NSC") has given its approval for this Prospectus.

The Prospectus (including its appendices) will be available at the headquarters of Raiffeisen Capital & Investment S.A. ("RCI" or the "Manager") and at the indicated branches of the members of the Distribution Group, as well as at the Issuer's main headquarters. Any person intending to subscribe Offered Shares should make its own analysis and assessment of the information contained in the Prospectus, as well as of the opportunity to invest in the Offered Shares.

The Issuer and the Intermediary will not be liable for not executing subscriptions received in conformity with this offering prospectus in case of force majeure (cases of force majeure mean unforeseen and unavoidable events or, in any case, events beyond the parties' control, including but not limited to wars, riots, rebellions, civil turmoil, acts of god, fire, flood, storms, strikes or any other general disturbances in the work process).

The distribution of this Prospectus and the offering and subscription of the Offered Shares in certain states may be restricted by the laws of the respective state. The persons into whose possession this Prospectus comes are required by the Intermediary to inform themselves about and to observe any such restrictions and limitations. Except for Romania, the Issuer has not taken any measure that would allow the present public offering for the sale of Offered Shares, the possession or distribution of the details regarding the Offering or any other offering, advertising material or form regarding the Offered Shares in a jurisdiction in which the authorization or approval of any authority or court of law is necessary or any notification of the Prospectus approval's prior to being allowed to take such actions. This document does not represent an offering or an invitation to acquire Offered Shares in jurisdictions in which this offering or invitation is not legal, including the jurisdictions in which an authorization, approval or notification is necessary and was not obtained. By subscribing Offered Shares, non-residents assume any liability derived from the fact that such a subscription may be considered illegal according to the laws of the residence country.

#### **NOTICE TO INVESTORS FROM THE EUROPEAN ECONOMIC AREA**

As in each Member State of the European Economic Area which implemented the Directive no. 2003/71/CEE regarding published prospectuses when securities are offered to the public ("The Prospectus Directive") (named, individually, "Relevant Member

State”), carrying out a public offer in the Relevant Member State cannot be performed before the publication of the Prospectus which was approved by the competent authority from that Relevant Member State or, as the case may be, which was approved in another Relevant Member State and notified to the competent authority of the Relevant Member State, in accordance with the provisions of the Prospectus Directive, except for the case in which the offer is addressed to:

- Qualified investors (according to the definition in the Prospectus Directive);
- A number of less than 100 natural and legal persons (other than qualified investors); or
- In any other circumstances which are mentioned in the provisions of Article 3(2) from the Prospectus Directive.

Since the Issuer has not taken any measure to allow carrying out the present Offer in a Member State in which authorization of any authority or notification of the approval of the Prospectus according to the Prospectus Directive is necessary, the Issuer is rightful to consider that any person from a Relevant Member State which subscribes within the Offer belongs to the eligible categories for the exceptions of the obligation to publish/notify the Prospectus mentioned by the Prospectus Directive.

#### **NOTICE TO INVESTORS FROM THE UNITED STATES**

The Offered Shares have not been and will not be registered according to the securities law of the United States of America 1933. The Offered Shares cannot be offered, sold or delivered in the United States of America or to American citizens or nationals.

The NSC has authorized this Prospectus in accordance with the authorization Decision No. 2199 of 14 November 2007. The public announcement regarding this Prospectus was published in Bursa and Ziarul Financiar of 15 November 2007. The authorization of the public offering Prospectus does not constitute a guarantee or any kind of assessment by the NSC with regard to the opportunity, the advantages or disadvantages, the profit or risks that may be implied by the transactions to be concluded by accepting the public offering subject to the authorization decision; the authorization certifies only the compliance of the offering with the legal requirements and the rules adopted for the enforcement thereof.

In this Notice to Investors the words in capital letters have the meaning ascribed to them in the Chapter “Definitions” included in this Prospectus.

#### **FORWARD LOOKING STATEMENTS**

This Prospectus contains, among other things, statements containing the expectations of the Issuer’s management regarding business opportunities, development plans and, in general, the Issuer’s perspectives. Where possible, expressions such as: “anticipates”, “expects”, “believes”, “considers”, “intends”, “has in mind”, “tries”, “estimates”, “it is possible that”, as well as other similar expressions, were used to identify forward looking statements. This type of forward looking statements implies a series of risks, predictable and unpredictable, a certain uncertainty degree as well as other factors that, in the future, may essentially influence the effective results, being possible that certain predictions, perspectives, projections or other forward looking statements not to be complied with. The factors that may lead to such changes include, but are not limited to the aspects presented in the Chapter “Risk Factors”.

Considering the above, the investors are cautioned not to rely exclusively on such forward looking statements. The Issuer expressly disclaims any liability to update such forward looking statements included in this Prospectus so as to reflect possible changes in the Issuer's expectations or changes to the status, conditions or circumstances on which such statements are based.

**DEFINITIONS**

Allocation Date	The second Business Day after the conclusion of the Offering on which the allocation index is determined and the Offered Shares are allocated within the Offering
Allotment Rights	As stated by the NSC notice no. 53/31.10.2007 the allotment right is a negotiable security, issued on the short term, by which its holder is entitled to one share, when the share capital increase is registered at the Central Depository. Each New Issued Share has attached an Allotment Right.
ANRM	National Agency for Mineral Resources
Articles of Association	The Issuer's memorandum of association, approved by the Government Decision 334/2000, as subsequently amended, updated in the form of articles of association on 2 August 2007.
Board of Directors	The Issuer's Board of Directors
BSE	Bucharest Stock Exchange
Bulgargaz	Bulgargaz EAD, a company registered in Bulgaria, with headquarters at Sofia, h. c. Lyulin-2, 66 Pancho Vladigerov Blvd., 1333, POB 3, Bulgaria
Business Day	Any day on which both the Romanian inter-bank market and the BSE trading and clearing-settlement systems of the Central Depository are opened for business
Capital Market Law	Law no. 297/ 2004 regarding capital market, published in the Official Gazette no. 571/2004, as subsequently amended and completed
Central Depository	The institution that offers clearing-settlement, depository and registry services in connection with transactions related with financial instruments or any other operations related with such as defined by Capital Market Law, operating a clearing system that assures the successful settlement of transaction with financial instruments and any related payments, according with the provisions of NBR Regulation no. 1/2005, amended and completed by NBR Regulation no. 9/2005.
Collection Accounts	The accounts opened by the Offering's Manager and by Intercapital Invest for the purpose of collection the amounts corresponding to the subscriptions within the Offering, as identified at the Chapter "Terms and Conditions of the Offering"
Companies Law	Companies Law no. 31/1990, republished in the Official Gazette no. 1066/17 November 2004, as subsequently amended and completed



Concession Agreement	The Concession Agreement for the major pipelines, installations, equipment and machines related to the natural gas national transport system and the operation of the natural gas national transport system concluded over a period of 30 years between the National Agency for Mineral Resources and the National Company for Natural Gas Transport "Transgaz" S.A. Medias
Custodian Agent	Commercial banks authorized by the National Bank of Romania to operate in Romania and by the NSC to carry out securities custody services according to the applicable legislation in force
Directive 2003/55/EC	Directive 2003/55/EC regarding common regulations for the domestic market in the natural gas sector, published in the Official Journal no. L176/15.07.2003
Distribution Group	The network of branches and agencies belonging to Raiffeisen Capital & Investment, Raiffeisen Bank and Intercapital, where Shares may be subscribed within the Offering
Euro or EUR	The currency of European Union member states that adopted it as official currency according to the European Union legislation
Existing Shares	All the shares newly issued by the Issuer as of the date on which the present Prospectus is approved, namely a number of 10,388,888 nominal shares, having a nominal value of RON 10.
Gazprom Export	OOO Gazprom Export, a company registered in the Russian Federation, with headquarters at Moscow, 9 Stanstnoy Blvd., 127006, Russian Federation
General meeting	The Issuer's general shareholders meeting
Government Decision	Government Decision
Government Decision 334/2000	The Government Decision no. 334/2000 regarding the reorganisation of the National Company for Natural Gas "Romgaz" - S.A, published in Romania's Official Gazette no. 194/04.05.2000
IAS	The International Accounting Standard as adopted by the European Union, part of the International Financial Reporting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union

Intercapital	S.C. INTERCAPITAL INVEST S.A. is a financial investment services company, authorised by the NSC based on the decision no. 863/23.03.2005, with headquarters in Bucharest, 33 Aviatorilor Blvd., 1st floor, Sector 1, tax registration code RO 7631041, registered at the Register of Commerce Office of Bucharest Court Hall under no. J40/6447/1995
Issuer/Transgaz	The National Company for Natural Gas Transport Transgaz S.A., registered at the Register of Commerce under no. J32/301/2000, tax registration code RO 13068733, with headquarters at Medias, Sibiu county, 1 Piața C. I. Motaș
Labour Code	Law no. 53/2003, Labour Code, published in the Official Gazette no. 72/5 February 2003, as subsequently amended and completed
Law no. 10/2001	Law no. 10/2001 regarding the legal status of the buildings unlawfully taken over between 6 March 1945 and 22 December 1989, amended and published in the Official Gazette no. 798/2 September 2005 with its subsequent changes.
Law no. 247/2005	Law no. 247/2007 concerning the reform on property and justice, as well as some adjacent measures, published in the Official Gazette no. 653/22 July 2005, with its subsequent changes.
NBR	National Bank of Romania
Newly Issued Shares	The shares issued within the Issuer's share capital increase, approved through the Shareholders' General Meeting no. 8/21.06.2007 and by the Shareholders' General Meeting no. 11/17.10.2007, namely 1,384,956, each with a nominal value of 10 lei.
NSC	National Securities Commission
NTS	National Transport System for natural gas – the natural gas transport network, namely all the major pipelines together with the related installations and equipment, functioning at a pressure exceeding 6 bars, that assure the take over of natural gas extracted from exploitation areas or of the imported gas and transport the same in order to be supplied to distributors, direct consumers, warehouses, export and beneficiaries from other countries
Offered Shares	The shares newly issued by the Issuer within the initial public offering for the promotion of which the present Prospectus was elaborated, namely 1,177,384 shares with a nominal value of RON 10.

Offering	The present initial primary public offering for the sale of shares initiated by the Issuer according to the description included in the Chapter “Terms and Conditions of the Offering”
Prospectus	The present Prospectus regarding the initial public offering of Issuer’s shares, approved by the NSC in order to carry out the Offering
PwC	PricewaterhouseCoopers Audit SRL, a company formed and organized according to Romanian law, with headquarters at 1-5 Costache Negri Str., sector 5, Bucharest, Romania, tax registration code RO 4282940, registered at the Trade of Registered Office – Bucharest, under no. J40/17223/1993.
Raiffeisen Bank	Raiffeisen Bank SA, a credit institution authorized by the National Bank of Romania according to the authorization no. A/000003 of 01.07.1994, with headquarters in Bucharest, 15 Charles de Gaulle Square, 4th, 5th, 6th, 7th and 8th floor, sector 1, tax registration code RO 361820, registration number at the Trade of Registered Office – Bucharest - J40/44/1991
RCI or the Manager	Raiffeisen Capital & Investment S.A., a financial investment services company authorized by the NSC according to the authorization no. 1990 of 30.06.2005, with headquarters at 15 Charles de Gaulle Square, sector 1, Bucharest, Romania, tax registration code RO 10715860, registered at the Trade of Registered Office - Bucharest under no. J40/6102/1998
Regulatory Authority	The former Regulatory Authority in the Field of Natural Gas (“ANRGN”), as formed according to the Government Ordinance no. 41/2000, published in the Romania’s Official Gazette no. 45/31.01.2000, cancelled and replaced by Gas Law no. 351/2004, published in Romania’s Official Gazette no. 679/28.07.2004, the duties of which were taken over by the National Regulatory Authority in the Field of Energy (“ANRE”), according to the Government Emergency Ordinance no. 25/2007, published in Romania’s Official Gazette no. 270/23.04.2007, Government Emergency Ordinance no. 33/2007, functioning according to its Rules of Organisation and Functioning approved by the Government Decision no. 410/2007, published in Romania’s Official Gazette no. 337/18.05.2007.
ROL	Romania’s official currency until 1 July 2005
Romanian Accounting Standards	The Orders of the Ministry of Public Finance no. 1827/2003, no. 1775/2004 and no. 94/2001 for the financial periods ended on 31 December 2004 and 31 December 2005 respectively and the Order of the Ministry of Public Finance no. 1752/2005 as subsequently amended for the financial period ended on 31 December 2006

RON	Romania's official currency starting 1 July 2005
Settlement Date	The third Business Day following the Transaction Date
Shares	All the shares issued by the Issuer at a certain time, before or after the admission to trading.
SNGN Romgaz	National Company for Natural Gas Romgaz S.A.
SRM	Adjustment-measurement station: all the installations for pressure reduction and adjustment, debit measurement, filtering and odorising, connected by a joint to collecting, transport or distribution pipelines, that supply a distribution system, a consumer or a group of consumers
Technical Code of the Natural Gas Sector	The Technical Code of the Natural Gas Sector approved by ANRGN Decision no. 616/2002
The Manager's Advisors	Nestor Nestor Diculescu Kingston Petersen law firm as legal advisor, Romanian American Enterprise Fund as technical advisor, and BDO Conti Audit S.R.L. as financial advisor. Bostina & Associates law firm was the sole legal advisor for the issues related with the Allotment Rights.
Trade of Registered Office	The Register of Commerce Office of Sibiu Court hall
Transaction Date	The same Business Day as the Allocation Date after the allocation index was determined and the offerend shares were allocated
USD	American dollar, the official currency in the United States of America

## **SUMMARY OF THE PROSPECTUS**

*The following summary is meant to be exclusively used as an introduction to the Prospectus, being based only on the information contained herein and does not purport to present complete information regarding the Issuer and its activities. Moreover, this summary was elaborated based on and should be corroborated with the more detailed information and the financial statements contained elsewhere in the Prospectus. Certain terms used in this summary are defined under other chapters included in this Prospectus.*

*Potential investors should take an investment decision based on the detailed information and financial statements contained in the Prospectus, considered in its entirety.*

*In case a claim related to a piece of information included in the Prospectus is brought forward in a court of law, it is possible that the claiming investor, based on the national legislation of European Union Member States, bears the costs for translating the Prospectus before the action is initiated in court.*

*The civil liability will be borne by the persons who elaborated the summary, including its translation, and who carried out its notice but only in case the summary is misleading, contains incomplete information or that do not correspond to information presented at the other chapters of the Prospectus.*

### ***Presentation of the Issuer***

Transgaz was set up based on the Government Decision 334/2000 and its main purpose is to carry out the following activities:

- natural gas transport
- international natural gas transit over the Romanian territory
- dispatch the natural gas networks and supply systems
- supply the natural gas received as payment in kind for its international transit services
- research and design for transport activities

The main income generating activities of the Issuer are the natural gas transport and transit, as well as the trading of natural gas received as payment for the transit services provided to Gazprom Export.

The Issuer's current main activity is the NTS operation, formed of 9 regional subsystems interconnected through 21 technological joints. As of 31.12.2006, the length of the transport pipelines network was of 11,757 kilometres, the NTS transport capacity being of approximately 40 million cubic meters of natural gas per year.

The right to operate the NTS was granted to the Issuer by ANRM based on the Concession Agreement concluded over a period of 30 years and valid until 2032 and the Transport License no. 40/17.01.2001 valid for a period of 15 years, granted by the Regulatory Authority. For using the main pipelines and the related equipment owned by the Romanian state, Transgaz pays a royalty of 10% of the income resulted from transport and transit activity.

According to OUG no 101/2007, published in the Official Gazette of Romania no. 684/8.10.2007 which modifies Oil Law no.238/2004, the level of the oil royalty, and

respectively of the royalty for the natural gas transportation service, increased from 5% to 10% of the value of the gross revenues obtained from transport and transit operations through the national transport systems. According to the provisions of the Concession Agreement corroborated with the provisions of OUG 101/2007, the royalty of 10% of the value of gross revenues obtained from transport and transit operations through the national transport systems became applicable starting with the enforcement date of the mentioned law, respectively 8 October 2007 (additional information can be found in Chapter VIII – Description of the Issuer’s activity – *Issues related with the Concession Agreement*)

Due to the monopoly status of the natural gas transport activity, the Issuer’s activity is regulated by the Regulatory Authority that, according to its duties, grants licenses for natural gas transport, transit and dispatch activities, namely supervises the compliance with the terms based on which such licenses were granted, as well as with the legal framework applicable to the participants to the natural gas market.

According to its duties, the Regulatory Authority approves the tariffs for carrying out the transport services over regulatory periods of 5 years, based on the “revenue cap”<sup>1</sup> tariff methodology.

The methodology consists in the determination, namely the estimation at the beginning of each regulation period, of the key parameters necessary for grounding the total revenue acknowledged by the Regulatory Authority. For more details see Chapter “VI.2 Summary of the methodology for regulated tariffs for the transport activity”.

The initial primary public offering for the sales of 10% of Transgaz shares is carried out according to the Government Decision no. 1329/2004 regarding the mandate of the public institution involved and the approval of the privatisation strategy by means of public offering of some companies included in the portfolio of the Ministry of Economy and Commerce, published in the Official Gazette no. 806/1.09.2004 and amended by the Government Decision no. 708/2005 published in the Official Gazette no. 634/19.07.2005.

In implementing the Offering, at 17 October 2007, the Extraordinary General Meeting approved the terms and conditions of the Issuer’s share capital increase by decision no.11 published in the Official Gazette no. 2880 at 22 October 2007, respectively by issue of 1,384,956 Shares out of which 1,177,384 are offered to subscription to the public within the Offering at a price of 57 Euro/Share, computed at the RON/EUR exchange rate announced by NBR for the date when the final Prospectus was submitted for NSC’s approval (7 November 2007), and the rest were subscribed by Property Fund as a result of its preference rights.

Prior to the Issuer’s share capital increase, the Romanian state, represented by the Ministry of Economy and Finance, held 8,831,840 Shares, corresponding to a percent of 85.012371%, and Property Fund held 1,557,048 Shares, corresponding to a percent of 14.987629%.

Within the share capital increase of Transgaz, the Romanian state, represented by the Ministry of Economy and Finance, gave up its preference rights, while Property Fund S.A. has exercised integrally its preference rights, according to current holdings by subscribing a number of 207,572 Shares at the price of 56.43 Euro/Share computed at the exchange rate Euro/RON announced by the National Bank of Romania for its subscription date, namely 23th October 2007. If the offering is closed successful, but not all the shares are subscribed, according to the lock up agreement signed by Fondul Proprietatea, the number

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<sup>1</sup> Approved by ANRGN Decisions no. 1078/2003, no. 1169/2004, no. 311/2005

of shares that were subscribed by it will be adjusted so as Fondul Proprietatea will maintain its actual share 14,987629%, after the share capital increase..

Apart from the objective pertaining to the privatization on the capital market, the Shares' admission to trading on the BSE represents an important objective also for the Issuer's management. It considers that the Shares' admission to trading on the BSE, as well as the improvement of financial risks management policies will lead to an upgrade of the rating granted by Standard&Poor's, impacting on the reduction of the financing costs needed for developing the Issuer's activity.

At present, the rating granted by Standard&Poor's for long term corporate loans is BB+ with positive outlook.

The Funds obtained following this Offering will be used for sustaining the Issuer's investment plan.

As strategy for the following time period, the Issuer aims to focus on the following key elements:

- **Maintaining and operating the NTS in a reliable manner** so as not to encounter any discontinuities in the transit and transport activity which in turn would have a negative impact on profitability.
- **NTS development through the Issuer's investment program** will allow it to assure new links with the neighbouring countries' networks in order to securitize the access to alternative gas supply sources, as well as to supply natural gas to new consumption areas in order to cover all the areas with potential consumers.
- **Improving the operating efficiency** faster than the Regulator imposed standards. The current tariff methodology allows the Company to retain any efficiency gains, obtained within the regulatory period, above the Regulatory targets. Any efficiency gains will increase the Company's profitability.

The Issuer is subject to the special provisions of the Government Ordinance no. 64/2001 regarding profit distribution within national companies and fully or partially state-owned companies, as well as autonomous companies, as well as of the Order of the Ministry of Public Finance no. 144/2005 regarding the approval of the Clarifications for determining the amounts subject to profit distribution according to Government Ordinance no. 64/2001. According to these legal provisions, Transgaz is obliged to distribute as dividends to all its shareholders at least 50% of the net profit of each financial year, calculated based on the Romanian Accounting Regulations, after deducting certain contributions due according to the Government Ordinance 64/2001.

#### ***Identity of the members of administration, management and supervision bodies***

The current structure of the Issuer's Board of Directors is the following:

No.	Name	Position
1.	Nicolae Turdean	President of the Board of Directors
2.	Elena Ianda	Director
3.	Constantin Zidaru	Director
4.	Ioan Rusu	Director, General Manager
5.	Nicolae Simescu	Director

Source: Transgaz, Management Reports

### ***Issuer's financial auditor***

PwC performed the audit of the financial statements of the Issuer for the three years ended 31 December 2006, prepared for the purposes of this Prospectus, and issued an audit report on these financial statements, included elsewhere in this Prospectus. PwC is a member of the Romanian Chamber of Financial Auditors, date and number of authorization 006/25.06.2001. Mr. Alexandru Lupea conducted the audit on behalf of PwC.

PwC performed the review of the condensed interim financial statements for the six months ended 30 June 2007, prepared for the purposes of this Prospectus, and issued a review report, included in this Prospectus. Mr. Alexandru Lupea conducted the review on behalf of PwC.

PwC's responsibility for the content of this Prospectus is limited to the aforementioned reports and the respective responsibility statements of PricewaterhouseCoopers Audit SRL have been included within those reports. PwC expressed its written consent, which has not been withdrawn, for the inclusion of its reports in this Prospectus in the form and context in which they are included.

The Issuer's legal advisor is Radu Tărăcilă Pădurari și Retevoescu Law Office.

### ***Statistic data regarding the Offering and its period***

<b>“Type of Offering”</b>	Initial public offering for the Issuer's shares with a fix number of securities offered.
<b>“Securities subject to the Offering”</b>	Nominative shares issued in dematerialized form, ordinary, indivisible and freely negotiable as of the date they are accepted for trading on the BSE, as well as Allotment Rights issued in dematerialized form, registered into account and freely transferable through the capital market. .
<b>“Investors”</b>	The shares offered by Transgaz are offered to all the investors interested to subscribe within the Offering (please consider “Notice to investors”)
<b>“Number of Offered Shares”</b>	Up to 1,177,384 shares resulted from the share capital increase, offered within the Offering, Representing 10% of the Issuer's increased share capital.
<b>“Number of Allotment Rights attached to the Offered Shares”</b>	A number of 1,177, 384 Allotment Rights attached to the Offered Shares. Each Offered Share has attached an Allotment Rights to it.
<b>“Intention of the members of the Issuer's administration, management and supervision bodies regarding the subscription within the offering”</b>	Excepting some members of Transgaz's administration, management and supervision bodies, that expressed their intention to subscribe in the offering, such intention not being binding or final in any way, the Issuer has no additional information regarding any other person's intention.  At the same time, the Issuer is not aware of any person's intention to subscribe more than 5% of the share capital.



<b>“Nominal value of the offered shares”</b>	RON 10.0/share
<b>“Total value of the offering”</b>	225,963,537.28 RON
<b>“Price of Offered Shares”</b>	191.92 RON/share
<b>“ISIN code”</b>	ISIN code of the offered Shares: ROTGNTACNOR8
<b>“CFI code”</b>	CFI code of the offered Shares: ESVUFR
<b>“Offering Period”</b>	The offering will be carried out between 26 November and 7 December 2007 (10 Business Days). Any change in the Offering terms will be made upon the Issuer’s request, based on the NSC prior approval and will be made public by means of an announcement. The offering cannot be revoked over the entire Offering Period.
<b>“Pre-emption rights”</b>	Not applicable.
<b>“Offering tranches”</b>	<p>During the Offering Period, subscriptions can be made within the following tranches:</p> <p><i>Large Investors Tranche</i> – within this tranche, subscriptions for a whole number of shares will be accepted so that the value of one subscription be larger than or equal to RON 500,000 and will represent 60% of the total number of the Offered Shares; Any cumulative subscription of one person, exceeding total tranche value., will not be considered in the allotment; and</p> <p><i>Retail Tranche</i> – within this tranche, subscriptions for a whole number of shares will be accepted so that the value of one subscription must be at least equal with 11 shares and smaller than RON 500,000 exclusively, and will represent 40% of the total number of the Offered Shares; and</p> <p>The Shares offered within each of the tranches above are of the same class, are subject to the same legal regulations and confer the same rights and obligations to their holders.</p>
<b>“Subscriptions”</b>	<p>During the entire Offering Period, the Investors’ subscription orders will be taken over at the headquarters of the Manager and the Distribution Group, between 9:00 – 15:00 hrs. Romanian time, while on the last day of the Offering the subscription orders will be taken over between 9:00-13:00 hrs. The deadline for subscriptions is 7 December 2007. After the deadline expires, no subscriptions from investors will be accepted.</p> <p>The Manager and Intercapital will register all the subscriptions received, if these comply with the validity terms, using the BSE</p>

primary market electronic system (POF market – “Public Offerings”).

The subscriptions are opposable to the Issuer starting with the registration of the subscription in the Primary Market Register. The deadline for registering the subscriptions in the Primary Market Register is 10 December 2007.

The Manager and Intercapital are obliged to make sure that for each order introduced on the primary market, the funds corresponding to the subscription were paid to the Collection Accounts stated in Prospectus and in the Offering announcement or will be settled by a custodian agent.

In case of oversubscription, the subscribers will receive the value of the shares subscribed and not allocated following the pro rata allocation within maximum ten Business Days from the Settlement Date.

The accounts to which the subscriptions within the Distribution Group will be made will be interest-bearing in favour of the Issuer.

**“Allocation method”**

The allocation will be made „pro-rata” for both the Retail Tranche and the Large Investors’ Tranche.

In case one of the tranches is oversubscribed and the other is insufficiently subscribed, the shares left unsubscribed in the insufficiently subscribed tranche will be allocated to the oversubscribed tranche until one of the two following limits is reached:

- whether the insufficiently subscribed tranche is fully subscribed;
- whether the oversubscribed tranche is subscribed only once.

In case the number of Shares offered within the two tranches is higher or equal to the number of subscribed Shares, each subscriber within one of the two tranches will receive the number of subscribed Offered Shares.

In case of oversubscription, the Offered Shares will be allotted to the subscribers within each tranche on a pro-rata basis.

In case the Offering is successful, but the number of offered and subscribed Shares is lower than the number of Offered Shares, the Offered Shares that were not subscribed will be cancelled.

In case that, in the process of pro-rata allocation, fractions of shares should be allocated, the allotment of those fractions of shares will be made according to rules set by the BSE.

**“Cancellation of subscription orders”**

During the Offering Period, the subscription orders are irrevocable. In case the present Offering Prospectus is subject to an amendment, the subscriptions may be withdrawn within maximum three Business Days from the date on which the respective amendment to the present Prospectus was published. An investor may withdraw its subscription by filling in a

	<p>revocation form at the unit where the subscription was made.</p>
<b>“Method for paying the subscribed Offered Shares”</b>	<p>The subscriptions can be made at the headquarters of the Manager and at the branches of the Distribution Group based on the payments made to the following accounts:</p> <p>RO93RZBR0000060004592833, opened with Raiffeisen Bank Bucharest Branch, beneficiary Raiffeisen Capital &amp; Investments S.A., for the subscriptions made at the counters of Raiffeisen Bank SA;</p> <p>RO13RZBR0000060002087405, opened with Raiffeisen Bank Bucharest Branch, beneficiary Raiffeisen Capital &amp; Investments S.A., for the subscriptions made through Raiffeisen Capital &amp; Investments S.A.;</p> <p>RO41BRDE450SV05477804500, opened with BRD - MCC, beneficiary Intercapital S.A., for the subscriptions made at the locations of Intercapital S.A.</p> <p>All the subscriptions will be made according to the subscription procedures described in Chapter XV – <i>Subscription procedures and distribution network – of the present Prospectus.</i></p>
<b>“Successful closing of the Offering”</b>	<p>The Offering will be considered successfully closed if, on its closing date, minimum 90% of the Offered Shares were subscribed. In case this condition is not complied with, the subscriptions will be rejected and the amounts paid during the Subscription Period will be returned to the Investors within maximum 10 business days from the Settlement Date.</p>
<b>“Notice to Investors”</b>	<p>In five business days after the NSC issues its response regarding the results of the Offering, the Manager will publish an announcement in two national coverage newspapers concerning the degree of subscription in each tranche.</p>
<b>“Manager”</b>	<p>Raiffeisen Capital &amp; Investment SA</p>
<b>“Intermediation Method”</b>	<p>Best efforts method.</p>
<b>“Guarantee of subscription”</b>	<p>The offering is not guaranteed. There is no commitment of the Offering Manager or of another entity to subscribe any part of the Offering in case it remains unsubscribed.</p>
<b>“Shareholders Register”</b>	<p>The shareholders register is kept by the Central Depository which will deposit the Shares according to the provisions of the register contract.</p>
<b>“Transaction date”</b>	<p>The transaction date is 11 December 2007.</p>
<b>“Settlement of Subscriptions made within the Offering”</b>	<p>The settlement will be carried out through the clearing-settlement system of the Central Depository, within three Business Days from the Transaction Date.</p>
<b>“The lock up agreement of Fondul Proprietatea”</b>	<p>Fondul Proprietatea agreed to a lockup period of 6 months, starting with the admission to trading on a regulated market operated by BSE, it will not sell or donate, or promise that it will sell or buy, or offer, or pledge, or grant any kind of options or</p>

rights, or take any kind of commitment to sell or to sign any kind of contract related with the owned Shares in the Issuer's share capital or any rights attached to such.

Fondul Proprietatea binds itself unconditionally and irrevocable not to sell, transfer, pledge or trade in any way the Allotment Rights attached to the subscribed and/or allocated Shares.

**Selected financial information**

The following selected financial data have been derived from the Issuer's audited financial statements prepared in accordance with IFRS for the three years ended 31 December 2006. These selected financial data should be read in conjunction with such financial statements, as well as with Chapter VI "Operating and Financial Review". Condensed interim financial statements for the six months ended 30 June 2007 prepared in accordance with IFRS, reviewed by Issuer's auditors, are presented in Chapter IV "Selected financial information".

**Income Statement**

	Year ended December 31,			
	2004 <u>(audited)</u>	2005 <u>(audited)</u>	2006 <u>(audited)</u>	2006 <u>(unaudited)</u>
	(RON thousand)			(EUR thousand)
Revenue	768,777	767,188	905,760	267,842
Other income	5,427	13,377	29,197	8,634
	<u>774,204</u>	<u>780,565</u>	<u>934,957</u>	<u>276,476</u>
Cost of gas sold	(89,415)	(36,554)	(71,488)	(21,140)
Gas, materials and consumables used	(137,131)	(176,868)	(179,024)	(52,939)
Depreciation and amortisation	(154,524)	(161,203)	(165,297)	(48,880)
Wages and salaries	(124,418)	(121,006)	(146,701)	(43,381)
Maintenance and transportation	(14,950)	(40,886)	(61,508)	(18,188)
Other employee benefits	-	(20,312)	(43,860)	(12,970)
Royalty expense	(33,854)	(35,851)	(42,313)	(12,512)
Third party services	(8,631)	(10,907)	(11,690)	(3,457)
Taxes and other state dues	(2,940)	(2,986)	(8,053)	(2,381)
Provision for liabilities and charges	(12,474)	(495)	11,691	3,457
Provision for employee benefits	(1,300)	(800)	(150)	(44)
Other operating expenses	<u>(34,917)</u>	<u>(34,535)</u>	<u>(40,283)</u>	<u>(11,912)</u>
<b>Operating profit</b>	159,650	138,162	176,281	52,129
Financial income	33,693	12,925	38,778	11,467
Financial expense	<u>(24,507)</u>	<u>(35,309)</u>	<u>(20,981)</u>	<u>(6,204)</u>
<b>Profit before taxation</b>	168,836	115,778	194,078	57,392
Taxation	<u>55,224</u>	<u>(19,774)</u>	<u>(32,517)</u>	<u>(9,616)</u>
<b>Net profit for the period</b>	<u>224,060</u>	<u>96,004</u>	<u>161,561</u>	<u>47,776</u>
Weighted number of outstanding shares	10,363,700	10,374,557	10,382,584	10,382,584
Basic and diluted earning per share (RON/share)	21.62	9.25	15.56	4.60

**Notes:**

- (1) Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares issued during the year.
- (2) Figures in EUR were derived using 2006 year-end exchange rate of 3,3817 RON/EUR.

**Balance sheet**

	Year ended December 31,			
	<u>2004</u> <u>(audited)</u>	<u>2005</u> <u>(audited)</u> (RON thousand)	<u>2006</u> <u>(audited)</u>	<u>2006</u> <u>(unaudited)</u> (EUR thousand)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	11,499	10,549	11,131	3,292
Property, plant and equipment	2,521,865	2,602,485	2,619,675	774,662
Available for sale financial assets	1,159	1,160	3	1
	<u>2,534,523</u>	<u>2,614,194</u>	<u>2,630,809</u>	<u>777,955</u>
<b>Current assets</b>				
Inventories	40,117	37,559	36,204	10,706
Trade and other receivables	132,626	151,159	161,433	47,737
Cash and cash equivalents	54,794	66,186	79,259	23,437
	<u>227,537</u>	<u>254,904</u>	<u>276,896</u>	<u>81,880</u>
<b>Total assets</b>	<u><u>2,762,060</u></u>	<u><u>2,869,098</u></u>	<u><u>2,907,705</u></u>	<u><u>859,835</u></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital	545,123	545,222	545,249	161,235
Public property reserve	1,265,797	1,265,797	1,265,797	374,308
Retained earnings	350,450	387,855	471,793	139,514
	<u>2,161,370</u>	<u>2,198,874</u>	<u>2,282,839</u>	<u>675,057</u>
<b>Non-current liabilities</b>				
Long term borrowings	200,845	186,345	130,071	38,463
Long term income tax payable	2,155	-	-	-
Provision for employee benefits	10,443	11,278	11,452	3,386
Deferred income	7,730	15,895	49,144	14,532
Deferred tax liability	164,458	147,488	131,627	38,923
	<u>385,631</u>	<u>361,006</u>	<u>322,294</u>	<u>95,304</u>
<b>Current liabilities</b>				
Trade and other payables	107,247	210,052	218,726	64,679
Current income tax liabilities	21,957	4,110	16,859	4,985
Short term borrowings	73,381	82,087	65,709	19,432
Provision for liabilities and charges	12,474	12,969	1,278	378
	<u>215,059</u>	<u>309,218</u>	<u>302,572</u>	<u>89,474</u>
<b>Total liabilities</b>	<u>600,690</u>	<u>670,224</u>	<u>624,866</u>	<u>184,778</u>
<b>Total equity and liabilities</b>	<u><u>2,762,060</u></u>	<u><u>2,869,098</u></u>	<u><u>2,907,705</u></u>	<u><u>859,835</u></u>

**Note:**

(1) Figures in EUR were derived using 2006 year-end exchange rate of 3,3817 RON/EUR.

## Cash Flow Statement

	Year ended December 31,			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
	<u>(audited)</u>	<u>(audited)</u>	<u>(audited)</u>	<u>(unaudited)</u>
		(RON thousand)		(EUR thousand)
<b>Cash generated from operations</b>	414,875	314,215	381,283	112,749
Interest paid, net	(12,769)	(13,813)	(12,870)	(3,806)
Income taxes paid	<u>(65,314)</u>	<u>(54,592)</u>	<u>(35,628)</u>	<u>(10,536)</u>
<b>Net cash inflow from operating activity</b>	336,792	245,810	332,785	98,407
<b>Cash flow from investment activities</b>				
Payments to acquire property, plant and equipment	(283,920)	(223,228)	(147,176)	(43,521)
Proceeds from disposal of property, plant and equip	-	(7,743)	20,272	5,995
Dividends received	8	32	-	-
Sale of financial investments	-	1	1,157	342
Acquisition of financial investments	<u>(233)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net cash used in investment activities</b>	(284,145)	(230,938)	(125,747)	(37,184)
<b>Cash flow from financing activities</b>				
Dividends paid	(32,960)	-	(71,391)	(21,111)
Proceeds from long term borrowings	9,937	6,562	-	-
Repayments of long term borrowings	<u>(50,150)</u>	<u>(13,849)</u>	<u>(104,678)</u>	<u>(30,954)</u>
<b>Net cash used in financing activities</b>	(73,173)	(7,287)	(176,069)	(52,065)
<b>Net change in cash and cash equivalents</b>	(20,526)	7,585	30,969	9,158
Cash and cash equivalents at the beginning of the year	<u>42,911</u>	<u>22,385</u>	<u>29,970</u>	<u>8,862</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>22,385</u>	<u>29,970</u>	<u>60,939</u>	<u>18,020</u>

### Note:

(1) Figures in EUR were derived using 2006 year-end exchange rate of 3,3817 RON/EUR.

## I. RISK FACTORS

*The investment in the Offered Shares, as well in the Allotment Rights attached to them, implies a significant degree of risk. In order to evaluate correctly the investment in the Offered Shares and in the Allotment Rights attached to them issued by the Company, investors should carefully analyze the following risk factors, as well as all the information included in this prospectus. Mentioned risks and uncertainties from the following paragraphs could affect the Issuer, as well as any investment in its Shares, as well in the Allotment Rights attached to them.*

*This list of risk factors does not comprise all the risks associated with an investment. Additional risks and uncertainties that the Issuer is currently not aware of or that the Issuer currently believes are immaterial may also adversely affect the business, financial condition, results of operations or prospects of the Issuer.*

*Any of the following risks and uncertainties may materially and adversely affect the business, financial condition, results of operations, prospects, and the Issuer's ability to pay dividends and investors may lose all or part of their investment as consequence of the Shares price decrease or Allotment Rights price decrease..*

### 1. Romanian business environment

#### ***Romania is still an emerging market***

Investors willing to invest in the shares of an issuer of an emerging market should be aware that such a market poses a risk higher than the markets of the countries having well developed economies and mature political and legal systems. Such a risk is determined by the need to adjust the legal system so as to create efficient instruments both in terms of implementation and in legal and economic terms, in order to assure a stable and predictable framework. The regulatory framework must assure a balance between the interests of consumers, of investors in the utilities industry, as well as between the same and the interests and objectives sustained by the state in the strategies it elaborated and the tax policy it applies. In a transition country, it takes time until this balance is created, while the Romanian natural gas sector is currently undergoing such a transition process.

Therefore, when analyzing the appropriateness of an investment in shares issued by a Romanian company, one must take into consideration the instability factors generated by a possible incapacity of the Romanian public administration to efficiently manage and use resources. Such incapacities are being caused mainly by the lack of qualified personnel, the existence of old bureaucratic structures, as well as the new or under development legal framework applicable to certain industries or the existence of legislative inconsistencies.

Although Romania is a member of the European Union, and the member status assures the premises for continuing the reforms and improving the economic environment, there is the risk that unforeseen events, associated with an emerging market economy, may have a material effect on the Company's financial condition and results of operations.

#### ***Legal framework***

In most aspects, the Romanian legislation is harmonized with the EU legislation, reflecting the imposed recommendations and containing the guidelines and principles of the community patrimony. Nevertheless, considering the reduction of legal differences between Romanian legislation and the one required from all European Union member



states, a series of changes and completions to the legislation in force may occur. These will require the Company to adapt quickly and efficiently to the new demands, given particularly that the laws and the regulations in force are sometimes inconsistently enforced and, in certain cases, the legal remedies may not be acquired in due time.

Significant aspects of Romanian legislation applicable to the Issuer, including in connection to the natural gas sector, are included in relatively new laws, while there is only a limited interpretation or one issued without having the necessary authority with respect to the legislation applicable to the Issuer. As a consequence, there is no certainty regarding the decisions to be made by the Romanian competent authorities in connection to various regulated aspects regarding the Issuer's activity.

#### ***Inflation and exchange rate***

Despite the inflation's downward trend, following NBR decision to target inflation starting August 2005, any investor must be aware of the risk that inflationary pressures on the economy may continue during the coming period (increase of utilities prices, wages, etc.). Inflationary pressures may lead to control measures taken by the NBR and, thus, may have material effect on the Issuer's financial condition and results of operations.

Starting 1<sup>st</sup> September 2006, all the capital foreign currency operations were liberalised. Residents and non-residents may carry out any kind of current and capital operations in foreign currency and RON without any restriction. At the same time, non-residents may convert any amount of RON in foreign currency and repatriate the income obtained. Nevertheless, the foreign currency regulations stipulate that, in case short term capital flows put significant pressure on the foreign currency market and cause serious disturbances in applying the monetary policy and the exchange rate, resulting especially in significant fluctuations of the internal liquidity and significant imbalances of the payment balance, the NBR may take safeguard measures regarding capital foreign currency operations. Such measures cannot last longer than 6 months.

Any kind of intervention of the NBR, according to the Regulation no. 4/2005, republished, as well as any fluctuation of the exchange rate related to economic development, may have material effect on the Company's financial condition and results of operations.

#### ***Enforcement by the European Commission of one or more safeguard provisions of the Treaty for Romania's Accession to the European Union***

Romania signed the Treaty for Accessing the European Union accepting some safeguard provisions in the field of justice, internal affairs and environment. The enforcement of one or more safeguard provisions might affect the trust in the Romanian business environment, with possible material consequences on the Issuer's profitability.

#### ***Capital market and liquidity***

After the completion of this Offering, the Company will take the measures necessary to list the Shares on the BSE regulated market. Despite the fact that the capital market legislation aligned to the European Union legislation regarding securities markets, BSE has the features of a small stock exchange of an emerging country in terms of liquidity, volatility of the market and values of listed shares. These factors may have a material effect on the trading price of the Shares.

***Political instability***

Factors influencing the political instability could negatively affect the Romanian business environment. Thus, any delay of the reforms undertaken by Romania in the Treaty regarding Romania's and Bulgaria's accession to the European Union, any economic action without a macroeconomic foundation and other measures that could even lead to a decrease of the country rating could drive to a change in investors' opinion towards the evolution of the local business environment. This may have material effect on the Company's business, financial condition and results of operations, as well as the trading price of the Shares.

***Romania's energy strategy***

Romania's energy strategy pursues a balanced mix of energy sources, with emphasis on coal, nuclear energy and renewable energy sources. At the same time, it emphasizes the use of liquid and gas fuel in cogeneration units, necessary to assure the population with thermo energy, while limiting the use of these sources in power generation. As a consequence of this governmental strategic orientation, there is the possibility for the natural gas demand not to register an increase or even to stagnate, thus having an adverse effect on the Company's business, financial condition and results of operations.

## **2. Industry related risk factors**

### ***Changes to the regulatory framework specific to gas industry***

The Issuer carries out its activity in a regulated framework. The laws, regulations and policies of the European Union, Government of Romania, as well as the decisions of the Regulation Authority may have material effect on the Issuer's business, financial condition and results of operations.

There is the risk that certain provisions of the regulatory framework, the interpretation of which may affect the Issuer, may be completed and/or changed thus negatively influencing the operating result, as well as the manner in which the Issuer carries out its activity. At the same time, any change to the regulatory framework of the European Union or to the policy of the Romanian Government may influence the Company in ways that it may not be able to anticipate.

### ***Impact of competition projects on the transit activity***

There is the risk that competitive projects regarding the transit activity carried out by Transgaz through dedicated pipelines may diminish the quantity of gas transported through these pipelines, thus leading to decreased income from transit activities. This may have material effect on the Issuer's business, financial condition and results of operations, due to the significant weight held by the transit activity in the Company's operating profit.

### ***Seasonality***

Following gas transportation evolution, the Issuer's income from domestic transportation is substantially lower in the second and third quarter of the year, affecting thus the financial position. In the same period, the Issuer carries out the main part of maintenance work for the transportation system, considering the weather conditions. The smaller operational results for the second and third quarter reflect the combined effect of the above mentioned factors. As a consequence of this seasonality, operational results and the working capital requirements vary and the quarterly variation is expected to continue.

### **3. Issuer related risk factors**

#### ***The Issuer's transport activity is carried out in a regulated framework***

Natural gas transportation is a regulated activity due to its monopoly statute. The criteria and methods for approving the prices and setting the regulated tariffs in the natural gas sector are approved by ANRGN decision no. 1078/18.12.2003, as subsequently modified, including by ANRGN Order no. 1169/2004 and ANRGN decision no. 311/2005.

Based on these regulations, the regulatory income is calculated for regulatory periods of 5 years, except for the first such period which was of only 3 years (1 July 2004 – 30 June 2007). Key variables for each regulation period are approved by the Regulation Authority based on the Issuer's proposal (a detailed description of the tariff methodology may be found in chapter VI.2 – 2 Summary of the methodology for regulated tariffs for the transport activity). Since the evolution of the key elements for the following regulatory periods is not under the Issuer's control, there is the risk for the new variables to have a material effect on the Issuer's future results of operations and financial condition.

#### ***The transit contracts are based on intergovernmental agreements***

The transit activity development had been based on intergovernmental agreements as a consequence of bilateral negotiations. Therefore the development of the transit activity is out of the Issuer's reach.

#### ***Expiration of transit contracts***

The contracts for transit activities were concluded for a limited term. The contract 10726 with Bulgargaz matures on 31 December 2011 and does not contain an extension provision. With respect to the contract 2102-06/03.06.1987 concluded with Gazprom Export, expiring on 31 December 2011, according to the Convention of 29 December 1986 between the URSS Government and SRR Government regarding the natural gas transit over the Romanian territory to Turkey, Greece and other countries, based on which it is concluded, it is extended for successive 5-year periods in case 4 years prior to the maturity no party notifies its intention to terminate the contract. The Contract 643/00157629/210247/24.09.1999 valid until 31 December 2023 is extended over successive 5-year periods in case 4 years prior to the maturity no party notifies its intention to terminate the contract.

When the contracts expire there is no assurance that the contracts will be prolonged. The terms, conditions and validity of possible future transit contracts cannot be anticipated and may have a material effect on the Issuer's business, financial condition and results of operations.

#### ***Minimum investment plan is one of the Issuer's obligations according to the Concession Agreement***

The minimum investment program for the period 2007-2011 was agreed together with ANRM and, for this purpose, ANRM and the Issuer signed the Addendum no. 2/2007 to the Concession Agreement.

The minimum investment plan for the period 2002-2006 was not fully achieved by the Issuer, which communicated this status to ANRM, explaining the reasons for its partial

completion (for additional information on this issue see Chapter – VIII – Natural gas transport activity – paragraph Aspects regarding the Concession Agreement).

It is worth mentioning that the non-compliance with the minimum investment program agreed with ANRM may lead to sanctions ranging from a fine to the termination of the Concession Agreement.

***The Issuer's profitability may be affected in case the costs from transport activities exceed the costs accepted by the Regulatory Authority***

According to ANRGN Decision no. 1078/2003, before the beginning of each regulatory period, which lasts for five years, the operating costs related to regulated activities are submitted to the Regulatory Authority for approval. If the expenses generated by Transgaz are greater than the costs accepted by the Regulatory Authority the Issuer's profitability will be diminished.

At the same time, during the regulatory period, the operating costs recognised and included in the regulated income are adjusted with the difference between the inflation rate and annual efficiency rate of the transport activity. Any excess of this limit may lead to reduced profitability, as the Company has to bear the difference out of the maximum profit allowed by the Regulatory Authority.

***Issuer may not succeed in improving the efficiency of its transport activities***

Starting with the second regulatory period, the Issuer's regulated revenue for each year of the regulatory period is indexed with the difference between the inflation rate and the annual efficiency rate reflecting the productivity gain imposed by the Regulatory Authority. The Issuer may not succeed in increasing its efficiency according to the parameters and tariff methodology. This may have a material effect on the Company's business, financial condition and results of operations.

***Non-observance of legal provisions concerning the legal, organisational and functional separation of regulated activities***

Currently, Transgaz carries out both regulated and non-regulated activities, specific to the natural gas sector. The current legal framework expressly stipulates the separation of regulated activities from non-regulated ones in order to assure the legal, functional and accounting separation of regulated activities. Considering certain regulatory aspects or aspects specific to Issuer's transport, dispatch, transit and supply activities, the latter has not implemented a reorganisation process in order to implement the legal, functional and organisational separation.

The non-compliance with the obligations pertaining to the legal, functional and organisational separation may trigger the sanctions mentioned in Gas Law no. 351/2004 and the License for natural gas transport no. 40/17.01.2001, namely sanctions ranging from a fine to the withdrawal of the license. For further information please consult Chapter IX.1 - History and evolution of the Issuer – Important legislative changes in the legal framework regarding the natural gas transport and transit activities.

***Cross subsidy of the transport activity by the transit activity***

The Issuer financed a series of investments for the transport activity out of the profit obtained from the transit activity. In case these investment resources would have been obtained from investment loans, the financing costs related to such resources would have decreased the profitability of the transport activity. Under these circumstances there is the

risk that using the profit obtained from transit activities for investments in transport activities may be considered a cross subsidy of the transport activity by the transit activity.

***Powerful unions that may obtain salary increases or complicate the efficiency increase process***

Approximately 99% of the employees are members of one of the 4 unions represented at Transgaz. Although the natural gas transport services is a public service of national interest, and any strike is allowed only if the system functions with one third of its capacity, the unions' negotiation power is significant. Any salary increases or any improvements of the benefits package not accepted as costs when calculating the regulated tariff will diminish the Issuer's profitability.

At the same time, the significant unions' power may represent an obstacle in enforcing the Issuer's decisions for making its activity more efficient by reducing the number of employees.

Also, difficulties in the restructuring process (strikes, etc.) may lead to discontinuities in the Issuer's daily activity, determining a decrease of its profitability.

***Exceeding the budgeted level for maintenance expenses***

At present, the Issuer carries out an extended process of checking the pipelines' technical status. Although the diagnosis process has not been concluded yet, the budgeted maintenance expenses may prove to be insufficient following the completion of the diagnosis analysis.

***Financial results of the transit business had and will continue to have a significant impact on the overall financial performance of the Issuer***

As may be observed also from the analysis of financial statements from Chapter VI – Overview on the Issuer's financial status and operating results, the non-regulated transit activity had a more substantial part in the Issuer's operational profit than that generated by the regulated transportation activity. Thus, any factor that may have a negative impact on the transit business results will decrease accordingly the Issuer's operational profit.

Moreover, adopting the requirements of the community acquis regarding the operation of cross-border interconnection capacities (allocation, based on yearly auctions, of the interconnection capacity according to Regulation 1775/2005 of the European Council and Parliament) may lead to difficulties/complications in connection to long-term carrying out of the international transit contracts for the pipelines crossing the South-Eastern part of Romania.

***Exchange rate fluctuations***

The contracts closed by the Issuer for the international transit business are denominated in foreign currency (USD and Euro). For 2004 – 2006, RON appreciation against Euro and USD had a negative impact on the incomes expressed in RON obtained from this activity. In the future, the evolution of the local currency will continue to affect the Issuer's results. On the other hand, the long term credits contracted before 31 December 2006 (maturity less than 5 years) are denominated in USD and Euro.

***Issuer's might not succeed to reduce technological consumption***

By carrying out the transportation activity, the Issuer experiences technological consumption that must be covered by gas acquisition. The main factors that determine the

level of technological consumption are the transported volume and the technical condition of the NTS. If all the Company's expenses with regard to the technological consumption are not accepted by the Regulatory Authority, the Company's profitability will decrease.

***Withdrawal of licences if their main validity terms are not met***

The Company operates in a regulated environment due to its monopoly statute. Natural gas dispatching, transportation and transit activities are carried out based on licences given by the Regulatory Authority and according to the concession granted by ANRM. Any non-observance of the obligations imposed to the licence holder or to the concession holder may lead to license suspension or withdrawal and may have a material effect on the Company's business, financial condition and results of operations.

***Major shareholder may continue to exercise significant influence***

Even after the successful completion of the Offering, the Romanian state will remain the Issuer's major shareholder, continuing to exercise a significant influence.

***Limited access to own sources for financing the development plans***

According to the legal framework in force, the companies with the majority held by the state must distribute to the shareholders at least 50% of their profit for each financial year after the deductions calculated according to the Government Decision no. 64/2001 (for more details see Chapter V. Dividend policy). Limiting the access to own funds may restrict the Issuer to turn to loans for financing its development plans. Thus, the interest rate volatility, as well as the exchange rate (if the loans are in foreign currency) may have a material effect on the Issuer's financial condition.

***Issuer's impossibility to expand in other profit generating activities as main field of activity***

As a consequence of the obligations to assure the legal, functional and organisational separation of the regulated activities in the natural gas sector, as well as the specific interdictions included in Gas Law 351/2004 and the issuer's transport license, the latter cannot expand its activity in other fields (such as probing, extraction, distribution and supply activities) in the natural gas sector besides the ones already carried out.

Moreover, certain restrictions regarding the expansion of the Issuer's activity may result from the interdictions regarding the incorporation in the main object of activity of non-regulated trading activities that are not sector specific.

***Limited ability to improve the profitability of the current natural gas transport business***

Natural gas transportation activity, being a regulated activity, offers limited possibilities for substantially increasing the operational profit. Moreover, the natural gas demand may not experience a sustained increase or may even decrease in favour of other energy sources.

***Remuneration of the investments made and their introduction in the regulated asset base is made with the Regulatory Authority approval***

Tariff methodology encourages the investments made in the NTS development by including them in the regulated asset base in the following year after putting them in service. Investments cannot be made without the agreement of the competent authorities, possible investments made in the absence of this agreement, which surpass the budgeted investment plan, on which the tariff approval has been based, will not to be approved by the Regulatory Authority, thus decreasing the Issuer's profitability.

***National Transportation System may be affected by natural disasters***

Tariff methodology stipulates that any unforeseen operational expenses that are not under the Issuer's control to be recognised and returned to the Issuer through the next year's regulated income. In spite of that, there is the risk that the Regulatory Authority does not recognise these expenses if the effect of natural disasters could have been limited by investments and maintenance programmes.

There is the possibility that the Regulatory Authority does not recognise in the calculation of regulated tariffs for the following year, according to the tariff methodology, the expenses made by the Issuer for commissioning the NTS areas affected by natural catastrophes, the Issuer being able to recover its expenses only in stages.

***In case regulatory framework will be modified/changed, the historical financial statements for years 2004, 2005, 2006 will no longer be representative for the Issuer's financial results and its, future results may vary substantially***

The tariff methodology may be subject to changes/completions of the Regulatory Authority. Any such change may have a significant impact on the Issuer's current activity, financial condition and results of operations. In a new regulatory framework the historical financial statements can no longer be representative for Transgaz current activity.

***Maintenance policy for National Transportation System***

The Company is in the decisive phase in which closure of the complex diagnostic operation of the technical state of some representative pipes sections has allowed a change in its strategic orientation, from investment expenses dedicated to replacing whole sections and increasing the projected parameters, to operational expenses dedicated to repairing only the impaired sections and bringing those sections to the initial parameters. This policy's effect is a slower increase in the regulated asset base than in the case of a pipeline replacing/ modernization policy, so the return rate approved by the Regulatory Authority will be applied to a regulated asset base with a slower increase.



#### **4. Risk factors related to the Offered Shares**

***The Shares have not been subject to a public offering for sale. As a consequence, the price of the Shares can be more volatile than in the case of shares of a company already listed.***

After the Offering, there is the risk that a market for the Issuer's Shares not to develop or, if it develops, not to be sustained as the Shares were not previously subject to another public sale offering. Liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Offered Shares does not develop, the price of the Shares may be more volatile and it may be more difficult to complete a buy or sell order for the shares. The price of the Shares may fluctuate significantly due to a number of factors, some of them outside Transgaz control.

***Shares volatility may have an adverse impact on holders of such Shares***

The market price of Shares may be volatile and subject to sudden and significant declines. As a result, the Issuer's shareholders may experience a material decline in the market price of shares. Price declines can result from a variety of factors, including the difference between the results the Issuer announces and forecasts by analysts, important contracts, mergers, acquisitions and strategic partnerships involving the Company or its competitors, fluctuations in its financial condition and operating results and general share price volatility on the BSE at a certain time.

***Possible future substantial sales of Shares in case the main shareholder will want to decrease its participation, or the perception that such sales could occur and could adversely affect the market value of the Offered Shares***

Future sales of the shares held by the Romanian state as a result of a possible privatization on the capital market may significantly affect the market price of the Offered Shares. Such a sale will be carried out according to the terms and conditions included in the legal framework specific to the privatisation process and the capital market mechanisms.

***The Romanian state, through the Ministry of Economy and Finance, together with Fondul Proprietatea will continue to be the Issuer's major shareholders after the Offering***

The Romanian state and Fondul Proprietata will remain the Issuer's major shareholders. This situation will determine a lower liquidity than in the case of other companies whose shares are subject to current transactions with a higher percentage of free float. For this reason, the market price for the Offered Shares may be more volatile, enhancing the risk of fluctuations which could adversely affect the market price of the Shares.

***Frequent stops of the shares from trading***

The shares are stopped from trading in case the issuers report special events or if litigation occurs between the shareholders. Such an event may limit the investors' possibility to sell the shares when they want and triggers the risk for a substantial value loss once the trading is resumed.

## 5. Risk factors related to the Allotment Rights

### *The risk of cancelling the share capital increase/Offering*

If the share capital increase and/or the Offering are irrevocable cancelled before the Allotment Rights are turned into Newly Issued Shares, the holder of the Allotment Rights is entitled to receive from the Issuer the price paid for the Shares subscribed in the Offering, having Allotment Rights attached to them. Thus, the amount to be reimbursed to the Allotment Right holder is equal with the product between the number of the Allotment Rights owned and the Offering price of a Newly Issued Share. By exception, Fondul Proprietatea is entitled to an amount equal with the product between the number of Allotment Rights owned and the price at which it subscribed the Newly Issued Shares, when it exercised its preemption rights.

Therefore, in case an investor bought the Allotment Right at a price higher than that of an offered Share in the Offering, he will sustain a loss by the difference between the subscription price of a Share in the Offering and the price at which he bought the Allotment Right.

### *The risk of an unsuccessful closing of the Offering*

In case the Offering is closed unsuccessfully, the Allotment Rights will not be allotted and the necessary steps to obtain the Registration Certificate of the Allotment Rights from NSC and admission to trading of the Allotment Rights will not be followed..

### *The risk of having to wait a long period between the start of trading of the Allotment Rights and the date at which they will mature*

If the court of law suspends the General Meeting's decision regarding the issuance of the Allotment Rights, after these instruments were admitted to trading and before they have matured, there is the risk of having to wait a long period until they will mature.

### *The risk of non admittance to trading of the Allotment Rights*

If BSE rejects the request for admission to trading of Allotment Rights, the holders of such instruments will not be able to sale their holdings:

In case the Allotment Rights will not be admitted to trading on a regulated market of BSE:

- Each Allotment Right gives its holder the property right to a Newly Issued Share which it will be received on a future date, when the share capital increase will be registered at the Central Depository
- The Allotment Rights cannot be sold by its holders.

### *The risk of changing the regulations concerning the Allotment Rights*

There is the possibility that the legal framework concerning the Allotment Rights could be changed, in which case, according to the changed regulations, the Allotment Rights might be changed accordingly.

### *The risk that the market price of Allotment Rights might vary from the future market price of the Shares*

Considering that there is no trading history regarding the Allotment Rights on the regulated market of BSE there is the risk that the market price of Allotment Rights will vary from the future market price of the Shares, risk that will be born by the Allotment Right holders. Moreover, the market price of the Allotment Rights might fluctuate accordingly with the events reported by the Issuer, meeting its reporting obligations.

***The risk that the Allotment Rights might have a limited liquidity***

Considering that until now there were no issues of Allotment Rights on the Romanian market there is the risk that such instruments might have a limited liquidity.

***The foreign exchange risk***

The non resident investors should be aware that they will be exposed to the foreign exchange rate risk, as Allotment Rights are issued and traded in local currency.

## II. TERMS AND CONDITIONS OF THE OFFERING

### Conditions specific to the offering

<b>“Type of Offering”</b>	Initial public offering for the Issuer’s shares with a fix number of securities offered.
<b>“Securities subject to the Offering”</b>	Nominative shares issued in dematerialized form, ordinary, indivisible and freely negotiable as of the date they are accepted for trading on the BSE, as well as Allotment Rights issued in dematerialized form, registered into account and freely transferable through the capital market. .
<b>“Investors”</b>	The shares offered by Transgaz are offered to all the investors interested to subscribe within the Offering (please consider “Notice to investors”)
<b>“Number of Offered Shares”</b>	Up to 1,177,384 shares resulted from the share capital increase, offered within the Offering, Representing 10% of the Issuer’s increased share capital.
<b>“Number of Allotment Rights attached to the Offered Shares”</b>	A number of 1,177, 384 Allotment Rights attached to the Offered Shares. Each Offered Share has attached an Allotment Rights to it.
<b>“Intention of the members of the Issuer’s administration, management and supervision bodies regarding the subscription within the offering”</b>	Excepting some members of Transgaz’s administration, management and supervision bodies, that expressed their intention to subscribe in the offering, such intention not being binding or final in any way, the Issuer has no additional information regarding any other person’s intention.
<b>“Nominal value of the offered shares”</b>	At the same time, the Issuer is not aware of any person’s intention to subscribe more than 5% of the share capital. RON 10.0/share
<b>“Total value of the offering”</b>	225,963,537.28 RON
<b>“Price of Offered Shares”</b>	191.92 RON/share
<b>“ISIN code”</b>	ISIN code of the offered Shares: ROTGNTACNOR8
<b>“CFI code”</b>	CFI code of the offered Shares: ESVUFR
<b>“Offering Period”</b>	The offering will be carried out between 26 November and 7 December 2007 (10 Business Days). Any change in the Offering terms will be made upon the Issuer’s request, based on the NSC prior approval and will be made public by means of an announcement. The offering cannot be revoked over the entire Offering Period.
<b>“Pre-emption rights”</b>	Not applicable.

<b>“Offering tranches”</b>	<p>During the Offering Period, subscriptions can be made within the following tranches:</p> <p><i>Large Investors Tranche</i> – within this tranche, subscriptions for a whole number of shares will be accepted so that the value of one subscription be larger than or equal to RON 500,000 and will represent 60% of the total number of the Offered Shares; Any cumulative subscription of one person, exceeding total tranche value., will not be considered in the allotment; and</p> <p><i>Retail Tranche</i> – within this tranche, subscriptions for a whole number of shares will be accepted so that the value of one subscription must be at least equal with 11 shares and smaller than RON 500,000 exclusively, and will represent 40% of the total number of the Offered Shares; and</p> <p>The Shares offered within each of the tranches above are of the same class, are subject to the same legal regulations and confer the same rights and obligations to their holders.</p>
<b>“Subscriptions”</b>	<p>During the entire Offering Period, the Investors’ subscription orders will be taken over at the headquarters of the Manager and the Distribution Group, between 9:00 – 15:00 hrs. Romanian time, while on the last day of the Offering the subscription orders will be taken over between 9:00-13:00 hrs. The deadline for subscriptions is 7 December 2007. After the deadline expires, no subscriptions from investors will be accepted.</p> <p>The Manager and Intercapital will register all the subscriptions received, if these comply with the validity terms, using the BSE primary market electronic system (POF market – “Public Offerings”).</p> <p>The subscriptions are opposable to the Issuer starting with the registration of the subscription in the Primary Market Register. The deadline for registering the subscriptions in the Primary Market Register is 10 December 2007.</p> <p>The Manager and Intercapital are obliged to make sure that for each order introduced on the primary market, the funds corresponding to the subscription were paid to the Collection Accounts stated in Prospectus and in the Offering announcement or will be settled by a custodian agent.</p> <p>In case of oversubscription, the subscribers will receive the value of the shares subscribed and not allocated following the pro rata allocation within maximum ten Business Days from the Settlement Date.</p> <p>The accounts to which the subscriptions within the Distribution Group will be made will be interest-bearing in favour of the</p>

<b>“Allocation method”</b>	<p>Issuer.</p> <p>The allocation will be made „pro-rata” for both the Retail Tranche and the Large Investors’ Tranche.</p> <p>In case one of the tranches is oversubscribed and the other is insufficiently subscribed, the shares left unsubscribed in the insufficiently subscribed tranche will be allocated to the oversubscribed tranche until one of the two following limits is reached:</p> <ul style="list-style-type: none"> <li>• whether the insufficiently subscribed tranche is fully subscribed;</li> <li>• whether the oversubscribed tranche is subscribed only once.</li> </ul> <p>In case the number of Shares offered within the two tranches is higher or equal to the number of subscribed Shares, each subscriber within one of the two tranches will receive the number of subscribed Offered Shares.</p> <p>In case of oversubscription, the Offered Shares will be allotted to the subscribers within each tranche on a pro-rata basis.</p> <p>In case the Offering is successful, but the number of offered and subscribed Shares is lower than the number of Offered Shares, the Offered Shares that were not subscribed will be cancelled.</p> <p>In case that, in the process of pro-rata allocation, fractions of shares should be allocated, the allotment of those fractions of shares will be made according to rules set by the BSE.</p>
<b>“Cancellation of subscription orders”</b>	<p>During the Offering Period, the subscription orders are irrevocable. In case the present Offering Prospectus is subject to an amendment, the subscriptions may be withdrawn within maximum three Business Days from the date on which the respective amendment to the present Prospectus was published. An investor may withdraw its subscription by filling in a revocation form at the unit where the subscription was made.</p>
<b>“Method for paying the subscribed Offered Shares”</b>	<p>The subscriptions can be made at the headquarters of the Manager and at the branches of the Distribution Group based on the payments made to the following accounts:</p> <p>RO93RZBR0000060004592833, opened with Raiffeisen Bank Bucharest Branch, beneficiary Raiffeisen Capital &amp; Investments S.A., for the subscriptions made at the counters of Raiffeisen Bank SA;</p> <p>RO13RZBR0000060002087405, opened with Raiffeisen Bank Bucharest Branch, beneficiary Raiffeisen Capital &amp; Investments S.A., for the subscriptions made through Raiffeisen Capital &amp; Investments S.A.;</p> <p>RO41BRDE450SV05477804500, opened with BRD - MCC, beneficiary Intercapital S.A., for the subscriptions made at the locations of Intercapital S.A.</p> <p>All the subscriptions will be made according to the subscription procedures described in Chapter XV – <i>Subscription procedures and distribution network – of the present Prospectus.</i></p>

<b>“Successful closing of the Offering”</b>	The Offering will be considered successfully closed if, on its closing date, minimum 90% of the Offered Shares were subscribed. In case this condition is not complied with, the subscriptions will be rejected and the amounts paid during the Subscription Period will be returned to the Investors within maximum 10 business days from the Settlement Date.
<b>“Notice to Investors”</b>	In five business days after the NSC issues its response regarding the results of the Offering, the Manager will publish an announcement in two national coverage newspapers concerning the degree of subscription in each tranche.
<b>“Manager”</b>	Raiffeisen Capital & Investment SA
<b>“Intermediation Method”</b>	Best efforts method.
<b>“Guarantee of subscription”</b>	The offering is not guaranteed. There is no commitment of the Offering Manager or of another entity to subscribe any part of the Offering in case it remains unsubscribed.
<b>“Shareholders Register”</b>	The shareholders register is kept by the Central Depository which will deposit the Shares according to the provisions of the register contract.
<b>“Transaction date”</b>	The transaction date is 11 December 2007.
<b>“Settlement of Subscriptions made within the Offering”</b>	The settlement will be carried out through the clearing-settlement system of the Central Depository, within three Business Days from the Transaction Date.
<b>“The lock up agreement of Fondul Proprietatea”</b>	Fondul Proprietatea agreed to a lockup period of 6 months, starting with the admission to trading on a regulated market operated by BSE, it will not sell or donate, or promise that it will sell or buy, or offer, or pledge, or grant any kind of options or rights, or take any kind of commitment to sell or to sign any kind of contract related with the owned Shares in the Issuer’s share capital or any rights attached to such.
	Fondul Proprietatea binds itself unconditionally and irrevocable not to sell, transfer, pledge or trade in any way the Allotment Rights attached to the subscribed and/or allocated Shares.

### **III. REASONS OF THE OFFERING AND USE OF PROCEEDS**

The share capital increase by means of this Offering, followed by listing the Shares on the regulated market of BSE, is carried out according to the Government Decision no. 1329/2004 regarding the mandate of the public institution involved and the approval of the privatisation strategy by means of public offering of some companies included in the portfolio of the Ministry of Economy and Commerce, published in the Official Gazette no. 806/1.09.2004 and amended by the Government Decision no. 708/2005 published in the Official Gazette no. 634/19.07.2005.

Besides diminishing the share of the Romanian state by means of the capital market, the Shares admission to trading on the BSE is an important objective also for the Transgaz management. The Issuer considers that the Shares admission to trading on the BSE, as well as the improvement of financial risks management policies will lead to an upgrade of S&P rating, thus decreasing the costs related to the financing needed for developing its activity.

The funds obtained from the Offering will be used, together with own sources, for financing the minimum investment programme agreed with ANRM for 2008, amounting to a total value of RON 273.7 million. According to this programme, the works related to NTS development amount to RON 185.98 million, and the works for modernising the NTS related installations and equipment totals RON 33.17 million. With respect to the expenses for the rehabilitation and increasing the NTS operation safety, the minimum level agreed with ANRM is RON 54.55 million. For more detailed information please consider chapter VIII.3 "Investment Policy".



## **IV. SELECTED FINANCIAL INFORMATION**

### ***Issuer's financial auditors***

According to the Issuer statement, the financial statements for the three year period ended 31 December 2006 were audited and the condensed interim financial statements for the six months ended 30 June 2007 were reviewed.

PwC performed the audit of the financial statements of the Issuer for the three years ended 31 December 2006, prepared for the purposes of this Prospectus, and issued an audit report on these financial statements, included elsewhere in this Prospectus. PwC is a member of the Romanian Chamber of Financial Auditors, date and number of authorization 006/25.06.2001. Mr. Alexandru Lupea conducted the audit on behalf of PwC.

PwC performed the review of the condensed interim financial statements for the six months ended 30 June 2007, prepared for the purposes of this Prospectus, and issued a review report, included in this Prospectus. Mr. Alexandru Lupea conducted the review on behalf of PwC.

PwC's responsibility for the content of this Prospectus is limited to the aforementioned reports and the respective responsibility statements of PricewaterhouseCoopers Audit SRL have been included within those reports. PwC expressed its written consent, which has not been withdrawn, for the inclusion of its reports in this Prospectus in the form and context in which they are included. After the Issuer's Shares are accepted to trading on a regulated market, its financial statements will be audited by financial auditors having the right to audit the financial statements of the entities the securities of which are accepted to trading on regulated markets, registered with the NSC, based on the protocol concluded with the Romanian Chamber of Financial Auditors.

PwC is registered with the NSC and is authorized to audit the financial statements of such companies.

### ***Selected financial information***

The following selected financial data have been derived from the Issuer's audited financial statements prepared in accordance with IFRS for the three years ended 31 December 2006 and reviewed condensed interim financial statement for the six months ended 30 June 2007 respectively. These selected financial data should be read in conjunction with such financial statements, as well as with Chapter VI "Operating and Financial Review".

**Income Statement**

	Year ended December 31,			
	<b>2004</b> <b>(audited)</b>	<b>2005</b> <b>(audited)</b> (RON thousand)	<b>2006</b> <b>(audited)</b>	<b>2006</b> <b>(unaudited)</b> (EUR thousand)
Revenue	768,777	767,188	905,760	267,842
Other income	5,427	13,377	29,197	8,634
	<u>774,204</u>	<u>780,565</u>	<u>934,957</u>	<u>276,476</u>
Cost of gas sold	(89,415)	(36,554)	(71,488)	(21,140)
Gas, materials and consumables used	(137,131)	(176,868)	(179,024)	(52,939)
Depreciation and amortisation	(154,524)	(161,203)	(165,297)	(48,880)
Wages and salaries	(124,418)	(121,006)	(146,701)	(43,381)
Maintenance and transportation	(14,950)	(40,886)	(61,508)	(18,188)
Other employee benefits	-	(20,312)	(43,860)	(12,970)
Royalty expense	(33,854)	(35,851)	(42,313)	(12,512)
Third party services	(8,631)	(10,907)	(11,690)	(3,457)
Taxes and other state dues	(2,940)	(2,986)	(8,053)	(2,381)
Provision for liabilities and charges	(12,474)	(495)	11,691	3,457
Provision for employee benefits	(1,300)	(800)	(150)	(44)
Other operating expenses	<u>(34,917)</u>	<u>(34,535)</u>	<u>(40,283)</u>	<u>(11,912)</u>
<b>Operating profit</b>	159,650	138,162	176,281	52,129
Financial income	33,693	12,925	38,778	11,467
Financial expense	<u>(24,507)</u>	<u>(35,309)</u>	<u>(20,981)</u>	<u>(6,204)</u>
<b>Profit before taxation</b>	168,836	115,778	194,078	57,392
Taxation	<u>55,224</u>	<u>(19,774)</u>	<u>(32,517)</u>	<u>(9,616)</u>
<b>Net profit for the period</b>	<u><u>224,060</u></u>	<u><u>96,004</u></u>	<u><u>161,561</u></u>	<u><u>47,776</u></u>
Weighted number of outstanding shares	10,363,700	10,374,557	10,382,584	10,382,584
Basic and diluted earning per share (RON/share)	21.62	9.25	15.56	4.60

**Notes:**

(1) Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Issuer by the weighted average number of ordinary shares in issue during the year.

(2) Figures in EUR were derived using 2006 year-end exchange rate of 3.3817 RON/EUR.

**Balance Sheet**

	Year ended December 31,			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
	<u>(audited)</u>	<u>(audited)</u>	<u>(audited)</u>	<u>(unaudited)</u>
	(RON thousand)			(EUR thousand)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	11,499	10,549	11,131	3,292
Property, plant and equipment	2,521,865	2,602,485	2,619,675	774,662
Available for sale financial assets	<u>1,159</u>	<u>1,160</u>	<u>3</u>	<u>1</u>
	2,534,523	2,614,194	2,630,809	777,955
<b>Current assets</b>				
Inventories	40,117	37,559	36,204	10,706
Trade and other receivables	132,626	151,159	161,433	47,737
Cash and cash equivalents	<u>54,794</u>	<u>66,186</u>	<u>79,259</u>	<u>23,437</u>
	227,537	254,904	276,896	81,880
<b>Total assets</b>	<u>2,762,060</u>	<u>2,869,098</u>	<u>2,907,705</u>	<u>859,835</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital	545,123	545,222	545,249	161,235
Public property reserve	1,265,797	1,265,797	1,265,797	374,308
Retained earnings	<u>350,450</u>	<u>387,855</u>	<u>471,793</u>	<u>139,514</u>
	2,161,370	2,198,874	2,282,839	675,057
<b>Non-current liabilities</b>				
Long term borrowings	200,845	186,345	130,071	38,463
Long term income tax payable	2,155	-	-	-
Provision for employee benefits	10,443	11,278	11,452	3,386
Deferred income	7,730	15,895	49,144	14,532
Deferred tax liability	<u>164,458</u>	<u>147,488</u>	<u>131,627</u>	<u>38,923</u>
	385,631	361,006	322,294	95,304
<b>Current liabilities</b>				
Trade and other payables	107,247	210,052	218,726	64,679
Current income tax liabilities	21,957	4,110	16,859	4,985
Short term borrowings	73,381	82,087	65,709	19,432
Provision for liabilities and charges	<u>12,474</u>	<u>12,969</u>	<u>1,278</u>	<u>378</u>
	215,059	309,218	302,572	89,474
<b>Total liabilities</b>	<u>600,690</u>	<u>670,224</u>	<u>624,866</u>	<u>184,778</u>
<b>Total equity and liabilities</b>	<u>2,762,060</u>	<u>2,869,098</u>	<u>2,907,705</u>	<u>859,835</u>

**Note:**

(1) Figures in EUR were derived using 2006 year-end exchange rate of 3.3817 RON/EUR.

## Cash Flow Statement

	Year ended December 31,			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
	<u>(audited)</u>	<u>(audited)</u>	<u>(audited)</u>	<u>(unaudited)</u>
		(RON thousand)		(EUR thousand)
<b>Cash generated from operations</b>	414,875	314,215	381,283	112,749
Interest paid, net	(12,769)	(13,813)	(12,870)	(3,806)
Income taxes paid	<u>(65,314)</u>	<u>(54,592)</u>	<u>(35,628)</u>	<u>(10,536)</u>
<b>Net cash inflow from operating activity</b>	336,792	245,810	332,785	98,407
<b>Cash flow from investment activities</b>				
Payments to acquire property, plant and equipment	(283,920)	(223,228)	(147,176)	(43,521)
Proceeds from disposal of property, plant and equip	-	(7,743)	20,272	5,995
Dividends received	8	32	-	-
Sale of financial investments	-	1	1,157	342
Acquisition of financial investments	<u>(233)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net cash used in investment activities</b>	(284,145)	(230,938)	(125,747)	(37,184)
<b>Cash flow from financing activities</b>				
Dividends paid	(32,960)	-	(71,391)	(21,111)
Proceeds from long term borrowings	9,937	6,562	-	-
Repayments of long term borrowings	<u>(50,150)</u>	<u>(13,849)</u>	<u>(104,678)</u>	<u>(30,954)</u>
<b>Net cash used in financing activities</b>	(73,173)	(7,287)	(176,069)	(52,065)
<b>Net change in cash and cash equivalents</b>	(20,526)	7,585	30,969	9,158
Cash and cash equivalents at the beginning of the year	<u>42,911</u>	<u>22,385</u>	<u>29,970</u>	<u>8,862</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>22,385</u>	<u>29,970</u>	<u>60,939</u>	<u>18,020</u>

**Note:**

(1) Figures in EUR were derived using 2006 year-end exchange rate of 3.3817 RON/EUR.

**Other Financial Data**

	Year ended December 31,			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
	(RON thousand except for percentage data)			(EUR thousand)
Operating profit	159,650	138,162	176,281	52,128
Operating profit margin	20.6%	17.7%	18.9%	18.9%
EBITDA <sup>(1)</sup>	314,174	299,365	341,578	101,008
EBITDA margin	40.6%	38.4%	36.5%	36.5%
Operating profit of core activities	164,028	135,449	162,316	47,998
Operating profit of core activities margin	24.2%	18.5%	19.5%	19.5%
EBITDA of core activities	313,667	293,568	323,926	95,788
EBITDA of core activities margin	46.3%	40.2%	38.9%	38.9%
Revenue of core activities	677,090	729,794	833,478	246,467

*Notes:*

- (1) EBITDA refers to profit before interest, taxes, depreciation and amortization as shown in the Company's audited financial statements. EBITDA is no concept defined under IFRS or any other generally accepted accounting principles.
- (2) Core activities consist of domestic transport and international transit.
- (3) Figures in EUR were derived using 2006 year-end exchange rate of 3,3817 RON/EUR.

## Condensed interim financial statements for the six months ended 30 June 2007

## Income Statement

	6 months ended 30 June,		
	2006	2007	2007
	(reviewed)	(reviewed)	(unreviewed)
	(ths. RON)		(ths. EUR)
Revenue	410,750	492,562	157,167
Other income	2,877	3,432	1,095
	<u>413,627</u>	<u>495,994</u>	<u>158,262</u>
Cost of gas sold	(11,476)	(55,742)	(17,786)
Gas, materials and consumables used	(114,634)	(71,635)	(22,857)
Depreciation and amortisation	(84,333)	(79,188)	(25,267)
Wages and salaries	(64,007)	(77,573)	(24,752)
Maintenance and transportation	(15,914)	(33,967)	(10,838)
Other employee benefits	(24,217)	(21,137)	(6,744)
Royalty expense	(20,584)	(21,813)	(6,960)
Third party services	(5,304)	(6,443)	(2,056)
Taxes and other state dues	(4,689)	(5,792)	(1,848)
Provision for liabilities and charges	11,690	-	-
Provision for employee benefits	(65)	(1,651)	(527)
Other operating expenses	146	(10,828)	(3,455)
	<u>80,240</u>	<u>110,225</u>	<u>35,172</u>
<b>Operating profit</b>			
Financial income	21,699	17,097	5,455
Financial expense	(11,870)	(6,430)	(2,052)
	<u>90,069</u>	<u>120,892</u>	<u>38,575</u>
<b>Profit before taxation</b>			
Taxation	(13,208)	(19,828)	(6,327)
	<u>76,861</u>	<u>101,064</u>	<u>32,248</u>
<b>Net profit for the period</b>			
Weighted number of outstanding shares	10,382,131	10,387,913	10,387,913
Basic and diluted earning per share (RON/share) (1)	7.4	9.73	3.10

**Note:**

(1) Figures in EUR were derived using the NBR announced exchange rate at 30 June 2007 of 3.1340 RON/EUR.

**Balance sheet**

	<u>31 December,</u> <b>2006</b> <u>(audited)</u> (ths. RON)	<u>30 June,</u> <b>2007</b> <u>(reviewed)</u>	<u>30 June,</u> <b>2007</b> <u>(unreviewed)</u> (ths. EUR)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	11,131	9,713	3,099
Property, plant and equipment	2,619,675	2,632,011	839,825
Available for sale financial assets	<u>3</u>	<u>3</u>	<u>1</u>
	2,630,809	2,641,727	842,925
<b>Current assets</b>			
Inventories	36,204	34,253	10,929
Trade and other receivables	161,433	85,688	27,342
Cash and cash equivalents	79,259	81,064	25,867
	<u>276,896</u>	<u>201,005</u>	<u>64,138</u>
<b>Total assets</b>	<u><u>2,907,705</u></u>	<u><u>2,842,732</u></u>	<u><u>907,063</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	545,249	545,307	173,997
Public property reserve	1,265,797	1,265,797	403,892
Retained earnings	<u>471,793</u>	<u>451,472</u>	<u>144,056</u>
	2,282,839	2,262,576	721,945
<b>Non-current liabilities</b>			
Long term borrowings	130,071	96,276	30,720
Provision for employee benefits	11,452	13,125	4,188
Deferred income	49,144	64,015	20,426
Deferred tax liability	<u>131,627</u>	<u>126,283</u>	<u>40,295</u>
	322,294	299,699	95,629
<b>Current liabilities</b>			
Trade and other payables	218,726	179,850	57,386
Current income tax liabilities	16,859	7,173	2,289
Short term borrowings	65,709	92,156	29,406
Provision for liabilities and charges	<u>1,278</u>	<u>1,278</u>	<u>408</u>
	302,572	280,457	89,489
<b>Total liabilities</b>	<u><u>624,866</u></u>	<u><u>580,156</u></u>	<u><u>185,118</u></u>
<b>Total equity and liabilities</b>	<u><u>2,907,705</u></u>	<u><u>2,842,732</u></u>	<u><u>907,063</u></u>

**Notă:**

(1) Figures in EUR were derived using the NBR announced exchange rate at 30 June 2007 of 3,1340 RON/EUR.

**Cash Flow Statement**

	6 months ended 30 June,		
	<b>2006</b>	<b>2007</b>	<b>2007</b>
	<b>(reviewed)</b> (ths. RON)	<b>(reviewed)</b> (ths. RON)	<b>(unreviewed)</b> (ths. EUR)
<b>Cash generated from operations</b>	96,292	204,813	65,352
Interest paid, net	(5,840)	(3,442)	(1,098)
Income taxes paid	(21,483)	(34,858)	(11,123)
<b>Net cash inflow from operating activity</b>	68,969	166,513	53,131
<b>Cash flow from investment activities</b>			
Payments to acquire property, plant and equipment	(58,191)	(70,917)	(22,628)
Proceeds from disposal of property, plant and equipment	18,052	-	-
Sale of financial investments	693	-	-
<b>Net cash used in investment activities</b>	(39,446)	(70,917)	(22,628)
<b>Cash flow from financing activities</b>			
Dividends paid	(11,139)	(103,192)	(32,927)
Proceeds from long term borrowings	-	-	-
Repayments of long term borrowings	(33,596)	(21,201)	(6,765)
<b>Net cash used in financing activities</b>	(44,735)	(124,393)	(39,692)
<b>Net change in cash and cash equivalents</b>	(15,212)	(28,797)	(9,189)
Cash and cash equivalents at the beginning of the year	29,970	60,940	19,445
<b>Cash and cash equivalents at the end of the year</b>	14,758	32,143	10,256

**Notă:**

(1) Figures in EUR were derived using the NBR announced exchange rate at 30 June 2007 of 3,1340 RON/EUR.



**Status of the Issuer's current and long term debts as of 30 June 2007**

<i>RON thousand</i> (reviewed)	Up to 1 year	Over 1 year	TOTAL
Long term borrowings	-	96,276	96,276
Short term borrowings and current portion of long term debt	92,156	-	92,156
Trade payables	38,173	-	38,173
Other payables	141,677	-	141,677
Current income tax liabilities	7,173	-	7,173
Deferred tax liability	5,903	120,380	126,283
Deferred income	-	64,015	64,015
Provision for liabilities and charges	1,278	-	1,278
Provision for employee benefits	-	13,125	13,125
<b>Total liabilities</b>	<b>286,360</b>	<b>293,796</b>	<b>580,156</b>

## V. DIVIDEND POLICY

### *Dividend Policy*

According to art. 27 of the Articles of Association, the Issuer's profit is determined based on the balance sheet elaborated according to Romanian Accounting Regulations and approved by the General Meeting. Transgaz after tax profit will be distributed according to the legal provisions in force and the decision of the General Meeting to funds for the development, investment, modernisation, research or other similar purposes, as well as for the fund due to the shareholders for dividend payment.

The Issuer pays dividends to its shareholders according to the law, after the General Meeting approves the financial statements. In case of losses, the General Meeting will analyse the causes and will decide accordingly, based on the legal regulations.

Dividends are distributed to shareholders pro rata with their contribution to the paid-in share capital. According to the Companies Law, these are paid within the period decided by the General Meeting, but no later than 6 months from the approval date of the yearly financial statements for each ended financial period.

According to the Capital Market Law that will become applicable to the Issuer after the Shares are accepted to trading on a regulated market, in case the General Meeting does not decide a payment term, the dividends will be due within maximum 60 days from the date on which the decision of the General Meeting regarding the distributed dividends is published in the Official Gazette, Part IV.

In case dividends are not paid within this period, the Issuer will pay damages-interests for the delay period, at the legal interest rate, unless the interest rate included in the Articles of Association or the decision of the General Meeting approving the financial statements for the ended financial year is higher.

The Issuer is subject to the special provision of the Government Ordinance no. 64/2001 regarding profit appropriation within national companies and companies fully or partially owned by the state, as well as autonomous companies, and to the Order of the Ministry of Public Finance no. 144/2005 regarding the approval of the clarifications for determining the amounts subject to profit appropriation according to Government Ordinance no. 64/2001.

According to the provisions of the Government Ordinance no. 64/2001, minimum 50% of the Issuer's after tax profit will be appropriated as dividends, according to the terms contained in this ordinance. The Issuer has the obligation to transfer the dividends to the Ministry of Economy and Finance within 30 days from the legal date for submitting the balance sheet, unless special laws provide otherwise.

Thus, the Issuer must distribute as dividends minimum 50% of its profit, after deducting the amounts to be used as mentioned at article 1, let. a) – d) of the Government Ordinance no. 64/2001:

- letter a) legal reserves;
- letter b) other reserves representing tax exemptions stipulated by the law;
- letter c) cover the accounting losses of previous years;

- letter c1) – set up its own financing sources for projects co-financed out of foreign loans, as well as for obtaining the amounts necessary for reimbursing the capital instalments, paying the interests, commissions and other costs related to such loans;
- letter d) – other appropriations stipulated by the law.

All these amounts will be calculated based on the yearly financial statements elaborated according to Romanian Accounting Regulations.

The Government Ordinance no. 64/2001 stipulates that national companies and trading companies fully or partially owned by the state that commit, by means of foreign loans contracted without the state's guarantee, not to distribute dividends in case certain performance parameters are not met or that assume other commitments included in these loans are exempted from the obligation to repatriate minimum 50% of the profit in the form of dividends. The Issuer mentions that it is not subject to the exemption included in the Government Ordinance no. 64/2004, namely that it has not committed, by means of foreign loans contracted without the state's guarantee, not to distribute dividends.

#### ***Historical financial information regarding the distributed dividends***

The Issuer has the obligation to carry out some investments for the modernisation and development of natural gas transport infrastructure. According to the Government Emergency Ordinance no. 137/2004, the Issuer was allowed to retain and use the net dividends for the financial periods ended on 31 December 2003 and 2004 in order to finance some investment works. The net value of the dividends for the year 2003 amounted to RON 63,900 thousand, while the net dividends for the year 2004 amounted to RON 82,040 thousand. The dividends related to shares are registered in shareholders' equity during the period for which these were stated.

During the period 2000-2003, the Issuer calculated dividends that it paid in stages. The Ministry of Economy and Commerce (at present Ministry of Economy and Finance), representing the Romanian state as shareholder, considered these debts as budgetary debts and calculated delay penalties. In November 2005, upon the unique shareholder's request, the Issuer registered the amount of RON 45,483 thousand as penalties. During the year 2006, the Issuer paid late the dividends for the year 2005, for which penalties amounting to RON 6,234 thousand were paid. These penalties have not been paid until now.

In 2006, the Issuer paid dividends of RON 71,389 thousand, out of which RON 64,250 thousand net dividends due to the shareholder and RON 7,139 thousand tax due to the state budget. These amounts were determined according to the Order of the Ministry of Public Finance no. 144/2005, by applying the 50% quota to the remaining net profit, after the legal reserves were formed.

In 2007, the Issuer has registered dividends due for the year 2006 amounting to RON 121,385 thousand, out of which RON 109,246 thousand net dividends and RON 12,138 thousand tax to the state budget. Until 30 June 2007, the Issuer paid the amount of RON 103,192 thousand, out of which RON 92,873 thousand net dividends and RON 10,319 thousand represented the related tax on dividends.

The number of the Issuer's shares slightly differs from one year to another as an effect of including some land in the share capital, without significantly impacting on the dividend per share. Thus, for 2004, the Issuer paid RON 3.9327 per share, in 2005 it did not register any payment, in 2006 it paid RON 6.88 per share and in 2007 it has distributed a dividend of RON 11.69/share for 2006. This difference is due to the fact that, in 2004, the Issuer kept a large part of the dividends for investment purposes.

The amounts mentioned above are presented based on the Issuer's financial statements elaborated according to Romanian Accounting Regulations.

The main differences between the Issuer's statutory profit, registered in the financial statements elaborated according to Romanian Accounting Regulations and the profit obtained following the application of IFRS are presented in the table below:

	Financial period ended 31 December		
	<b>2004</b> <b>(audited)</b>	<b>2005</b> <b>(audited)</b>	<b>2006</b> <b>(audited)</b>
	(RON thousand)		
<b>Net result according to Romanian Accounting Regulations</b>	<b>179,003</b>	<b>138,447</b>	<b>237,913</b>
Asset revaluation	(85,240)	(104,612)	(98,955)
Restatement of expenses with materials for inflation recognised in previous periods	(1,618)	(150)	(1,762)
Deferred tax	120,724	16,836	15,861
Reclassification of dividend related penalties	-	45,483	6,234
Provision for pensions	(1,324)	-	-
Provision for inventories	(453)	-	2,270
Provision for asset depreciation as per GD 1644/Oct 2004	(18,302)	-	-
Employees' participation to profit for the year 2003	(15,648)	-	-
Other adjustments	(270)	-	-
Adjustment Development Fund	47,188	-	-
<b>Net result according to IFRS</b>	<b>224,060</b>	<b>96,004</b>	<b>161,561</b>

## VI. OPERATING AND FINANCIAL REVIEW

The following selected financial data have been derived from the Issuer's audited financial statements prepared in accordance with IFRS for the three years ended 31 December 2006 and for the reviewed condensed interim financial statements for the six months ended 30 June 2007. These selected financial data should be read in conjunction with such financial statements, as well as with the information presented at Chapter IV "Selected Financial Information". The operational data are taken from the Directors' Report for the years 2004, 2005 and 2006 and for the first 6 months of 2007.

### 1. General aspects

Transgaz is the operator of NTS mainly carrying out domestic transport and international transit of natural gas.

The transportation activity consists in delivering the natural gas from producers/importers to distributors/industrial consumers or to the underground warehouses. As stated by Gas Law no. 351/2004, the natural gas transportation is a regulated activity due to its monopoly status.

The transit activity carried out by the Issuer represents the transport of natural gas from Russia to other countries through three dedicated pipelines crossing the Dobrogea region (South-Eastern part of Romania). The transit activity is not regulated, the tariffs for this activity being set on a contractual basis with the customers, Gazprom Export (2 contracts) and Bulgargaz (1 contract). For Gazprom, the contracts' values are expressed based on tariffs and ordered capacity, while for Bulgargaz contract the value is a lump sum not depending on the ordered capacity.

### 2. Summary of the methodology for regulated tariffs for the transport activity

The natural gas domestic transportation activity is subject to the regulations of the Regulatory Authority.

The general objective of the regulation is to provide third parties' non-discriminatory access to the national gas transportation network, limited only by the network's capacity and its technological constraints.

In order to set the tariff for the transport services, the Regulatory Authority adopted the revenue cap methodology, also known as RPI – X methodology. This methodology offers the stability and predictability of revenues within the regulatory period, encouraging in the same time the efficiency of the network operator.

The criteria and methods for approving the prices and setting the regulated tariffs in the natural gas sector are approved by ANRGN decision no. 1078/18.12.2003 as subsequently modified and amended, including by ANRGN decision no 311/2005.

Based on these regulations, the revenue is determined for 5-year regulatory periods, except for the first period, which lasted only for 3 years (1 July 2004 – 30 June 2007).

To determine the allowed revenue recognized by the Regulatory Authority, the methodology requires the setting, at the beginning of every regulatory period, of certain key parameters:

- Operating expenses (OPEX), under Issuer's management control, related to transport activities, accepted by the Regulatory Authority for the first year of the regulatory period;
- The regulated asset base (RAB) – determined in the first year of the first regulatory period based on RAB implicit method, based on the discounted cash flow method. Based on the amortization timeframe of 30 years set by the Regulatory Authority, the annual recognized amortization related to RAB is computed. RAB is reassessed at the beginning of each regulatory period. Starting with the second regulatory period, RAB is adjusted with the value of the working capital;
- The regulated annual rate of return of capital (RoR) - determined based on weighted average cost of capital;
- The efficiency rate for the transportation activity;

The parameters for the first regulatory period (1 July 2004 – 30 June 2007) are presented in the table below:

<i>RON thousand</i>	<b>1 July 2004 – 30 June 2007</b> (unaudited)
Operating expenses for the first year of the regulatory period (1 July 2004 – 30 June 2005)	289,234
Rate of return for the first regulatory period	10.84%
RAB at the beginning of the regulation period	942,452
Efficiency rate for the regulatory period	0.00%

Further on, for determining the allowed revenue for the following years of a regulatory period, the methodology uses also the following inputs:

- The inflation rate (used in government's budget construction) - used for adjusting the regulated revenue after the first year of a regulatory period.
- Pass through costs – operating expenses over which the Issuer has no control by increasing the efficiency. The Regulatory Authority recognizes the following pass through costs:
  - The fiscal contributions related to employees' salaries;
  - Taxes and other fiscal contributions;
  - The concession royalty fee for the transportation activity;
- The investment made by the Issuer in the development and upgrading of the NTS. These investments generate return in the following year after they become operational, by including them in the regulated asset base. Based on the amortization periods set by the Regulatory Authority the regulated amortization for the investments can be computed. The

two components, remuneration and depreciation, are included in the next year's regulated revenue.

- Adjustments to be added to regulated revenue representing
  - unexpected costs supported by the NTS operator in the previous year and allowed by the Regulatory Authority,
  - difference between the estimated and actual pass through costs and difference between the allowed and actual revenue in the previous year.

Within a regulatory period, the first year's total revenue is determined on a cost plus basis, based on the estimated operational costs, the rate of return, the regulated asset base, pass through costs, and the regulated depreciation.

**Allowed Revenue = OPEX + RoR X Regulated Asset Base + Regulated Depreciation + Pass Through Costs**

**Regulated Revenue = OPEX + RoR X Regulated Asset Base + Regulated Depreciation**

For the following years in the regulatory period, allowed revenue is determined by adjusting the previous year's regulated revenue with the inflation and the efficiency rate. To this, the methodology adds adjustments related to the previous year (estimated vs. actual), pass through costs, the return and the regulated depreciation of the previous year investments put in place.

**Allowed Revenue = Regulated Revenue + Pass Through Costs**

**(Regulated Revenue for the current year = The Regulated Revenue (previous year) x (1+ Inflation Rate – Efficiency Rate) + (Return and Depreciation of previous year investment in place) + (Unexpected Costs in the Previous Year + Difference Between Estimated and Actual Pass Through Costs for the Previous Year) + Difference Between Estimated and Actual Regulated Revenue of the Previous Year.**

For the first regulatory period, the regulated revenue and the pass through costs are presented in the table below:

	<u>1 July 2004 – 30</u> <u>June 2005</u>	<u>1 July 2005 – 30</u> <u>June 2006</u>	<u>1 July 2006 – 30</u> <u>June 2007</u>
RON thousand	(unaudited)	(unaudited)	(unaudited)
Regulated revenue in the respective regulated year	426,325.8	501,617.1	660,283.2
Pass through costs	57,353.0	57,097.7	71,153.6
<b>Total revenue in the respective regulated year</b>	<b>483,678.8</b>	<b>558,714.8</b>	<b>731,436.8</b>

The yearly total revenue is transformed in tariffs for NTS users:

- Tariff for reserving transportation capacity (firm or unconfirmed) – fixed component;
- Tariff for using the transportation network – variable component, based on quantities transported.

For determining the two components of the tariff for the transportation activity, the total costs recognized by the Regulatory Authority are divided between fixed costs, which do not depend on the transported quantities and variable costs, which depend on the quantities transported. The tariff is based on the estimated quantities to be transported and on the reserved capacity.

For additional details concerning the methodology for transportation tariff setting please also consider Decision ANRGN no. 1078/18.12/2003, with its subsequent modifications and completions.

### **3. Material Factors Affecting the Issuer's Results**

#### ***Transport activity is regulated using the revenue cap methodology***

The Issuer's revenues from transport activities are set by the regulator to the level that will cover its normal operating expenses and allow a certain rate of return to the regulated assets base. Any increase of the expenses over the accepted level or decrease of the regulated rate of return may affect the Issuer's profitability.

*See previous section for details regarding revenue cap methodology.*

#### ***Minimum investment program for 2007-2011***

By the Concession Agreement, the Issuer has the obligation to implement an investment program updated each 5 years (current term is 2007 –2011) that may require allocation of both internal and external financing. The program may affect the Issuer's profitability and the level of dividend distributed to shareholders within the framework of Government Ordinance 64/2001 regulating the distribution of dividends in majority-owned state companies.

#### ***Technological consumption***

Operating the transport activity, the Company incurs technological consumption that need to be covered by purchasing gas. The transported volume and NTS technical condition are the main determinants of the level of internal consumption. The decrease of the technological consumption and, therefore, the efficiency gains are obtained through maintenance and investment programmes.

Up to May 2006, the Issuer had to buy gas covering the technological consumption according to the market basket consisting of domestic produced gas and imported gas. Since the abolishment of this restriction in June 2006, the Issuer has contracted gas only from the domestic producers, but the alignment process of domestic produced price to import price will reduce the cost benefits of this situation over the next years.

#### ***Seasonality***

During the 2<sup>nd</sup> and 3<sup>rd</sup> quarter of the year, the Issuer's revenues from domestic transport are substantially lower following the pattern of the gas transported volumes, affecting the financial position. In the same period of time, the Company performs the maintenance of the transport



system considering the weather conditions. The aggregated effect is reflected in lower operating results in the second and third quarter of the year. In the 1<sup>st</sup> and 4<sup>th</sup> quarters, the Issuer records the majority of the technological consumption. As a result of this seasonality, the operating results and working capital requirements have varied and are expected to continue to have a quarterly variance.

#### ***Exchange rate fluctuations***

The Issuer's contracts for international transit are denominated in foreign currencies (USD and EUR). For the period 2004 – 2006, RON appreciation against EUR and USD has negatively impacted the revenues expressed in RON obtained from this activity. In the future, the evolution of the domestic currency will continue to affect the Issuer's results. On the other hand, all long-term borrowing contracted before 31 December 2006 (maturities below 5 years) are denominated in USD or EUR.

#### **4. Significant Accounting Policies**

As a result of the uncertainties inherent in the Issuer's business activities, the management needs to make certain assumptions that require management to make difficult, subjective and complex judgements.

The following paragraphs describe those accounting policies that the Issuer believes to be important for the understanding of the financial statements drafted according to IFRS standards, including policies requiring subjective or complex judgments. A more detailed description of these accounting policies can be found in the notes to the Issuer's financial statements.

#### ***Basis of preparation of financial statements***

The financial statements of Transgaz have been prepared in accordance with IFRS. They are not the statutory accounts of the Issuer.

The Issuer maintains its accounting records in RON and prepares its statutory financial statements in accordance with the Romanian Accounting Regulations. These IFRS financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The financial statements have been prepared using the historical cost convention, except as disclosed in the accounting policies presented in the notes to the Issuer's financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Issuer's accounting policies.

#### ***Accounting for the effects of hyperinflation***

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a

hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Issuer no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

The restatement was calculated using the conversion factors derived from the Romanian Consumer Price Index (“CPI”), published by the Comisia Nationala de Statistica. The indices used to restate corresponding figures, based on 1998 prices (1998 = 100) for the five years ended 31 December 2003.

### ***Intangible assets***

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three years). Costs associated with developing or maintaining computer software are recognized as an expense as incurred.

### ***Property, plant and equipment***

Buildings comprise mainly buildings ancillary to operating assets (e.g. buildings housing pumping stations, gas treatment stations etc.), a research centre and office buildings. Transportation system assets consist of the assets comprising the national gas pipeline transportation system (e.g. pipelines, compressors, gas filters, measuring devices etc.). Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Romanian Leu at 31 December 2003 for assets acquired prior to 1 January 2004, less accumulated depreciation and provision for impairment, where required.

Items acquired after 1 January 2004 are stated at cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings	50
Assets in the gas transportation system	20 - 50
Other fixed assets	4 - 20

Land and assets in progress are not depreciated.

***Public property assets***

In accordance with the Public Property Law 213/1998, natural gas transportation pipelines represent state property. Government Decision 491/1998, as confirmed in Government Decision 334/2000, specifies that fixed assets with a statutory gross book value of RON 499,726 thousand (at 31 December 2006 a statutory gross book value of RON 490,809 thousand and a restated net book value of RON 541,449 thousand) representing gas pipelines are to be administered by the Issuer. Therefore, the Issuer has the exclusive right to use these assets over the concession period and will return them to the State at the end of the period. The Issuer receives the majority of the benefits associated with the assets and is exposed to the majority of risks, including the requirement to maintain the network assets over a period which is at least equal to their remaining useful life, and the Issuer's financial performance is directly linked to the condition of NTS. Consequently, the Issuer has recognized these assets in its balance sheet, together with a corresponding reserve in equity.

***Inventories***

Inventories are stated at the lower of restated cost and estimated net realizable value. Cost is calculated on a weighted average cost basis. Where necessary, provision is made for slow moving and obsolete inventories in order to arrive at the net realizable value. Obsolete or defective inventories identified individually are provided for in full or written-off. For slow moving inventories, an estimation of the age of inventories based on their turnover is made for each main category; inventories older than one year are provided for in full.

***Trade receivables***

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Issuer's accounting policy for depreciation its receivables is to provide provisions for all balances older than 365 days. For the balance due to be received, the entity considers any objective facts that could indicate the depreciation, for each amount due to be received which is by itself material and for financial assets which are not material the Issuer considers collective depreciation. The assets which are valued individually for the scope of depreciation and for which the depreciation of losses is recognized are not included in the cumulated value of depreciation.

***Shareholders' equity******Share capital***

Ordinary shares are classified as equity. Transaction costs of an equity transaction (cost incurred in issuing its own equity instruments), other than costs of issuing an equity instrument that are directly attributable to the acquisition of a business, are accounted for as a deduction from equity, net of any related income tax benefit. Any excess of the fair value of consideration received over the par value of shares issued is recognized as a share premium.

### *Dividends*

Discretionary dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date, but before the financial statements are authorized for issue.

In accordance with Government Ordinance 64/2001, companies in which the state has a majority ownership have to distribute at least 50% of their net profit after deduction of any contractual profit distributions to employees, as dividends to the state.

According to the provisions of the Emergency Government Ordinance 137/2004, approved by the Law 50/2005, by exception to Government Ordinance 64/2001, the Issuer was entitled to retain and re-invest the dividends declared for 2004 and 2003 (net of related dividend tax) to finance its major investment projects relating to the modernization and development of the natural gas transportation infrastructure. As a consequence, unpaid dividends for 2003 and 2004 were maintained in retained earnings, net of the associated dividend tax.

### *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

### *Income tax*

Due income tax has been provided for in the financial statements in accordance with Romanian legislation enacted at the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available against which the temporary differences can be utilised.

***Trade and other payables***

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***Deferred income***

Deferred income is recorded for connection fees charged to customers for connecting them to the NTS. The deferred income is released in the income statement over the weighted average useful life of the related assets (connection pipes, gas flow regulator, counter).

***Employee benefits***

The Issuer, in the normal course of business, makes payments to the state budget and social insurance budgets on behalf of its employees. All employees of the Issuer are members of the Romanian State pension plan, which is a defined contribution plan. These payments are recognised within the income statement together with the salary expenses.

***Benefits on retirement***

Under the collective labour contract, the Issuer should pay to its employees at the time of their retirement an amount equal to a multiplier of their gross salary depending on the employment period in the gas industry, working conditions, etc. The Issuer has recorded a provision for such payments.

***Social costs***

The Company incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to wages and salaries costs.

***Free gas quota***

The Issuer is also committed through the collective labour agreement to provide current employees free of charge with certain quantities of gas or the cash equivalent; these amounts are charged to “Other employee benefits” in the period in which they are incurred.

***Provisions***

Provisions for liabilities and charges are recognised when the Issuer has a present legal or implicit obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

***Revenue recognition***

Revenue comprises the invoiced value of gas delivered, and services for gas transportation and transit rendered, net of value-added tax, rebates and discounts. Revenue from gas transportation and transit and from the sale of gas is recognized when the gas has been delivered and measured in accordance with contract.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service paid in kind.

***Mutual cancellation and barter transactions***

A portion of sales and purchases are settled by mutual cancellations or barter transactions. These transactions are generally in the form of direct settlements by dissimilar goods and services from the final customer (barter) or cancellation of balances through a chain involving several companies.

Sales and purchases that are expected to be settled by barter or other non-cash settlements are recognised based on the management's estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash flows.

## 5. Results of Issuer's Operations

### Revenues

The Issuer recognized revenues from the following activities: domestic gas transportation and international gas transit - the core activities- as well as from the sale of gas and revenue from other services. Revenue from other services had only a marginal contribution to the Issuer's turnover during the period analyzed.

The following table shows the revenues for the period ended 31 December 2004, 31 December 2005, 31 December 2006.

	Year ended December 31,			
	<b>2004</b> <b>(audited)</b> (RON thousand)	<b>2005</b> <b>(audited)</b> (RON thousand)	<b>2006</b> <b>(audited)</b> (RON thousand)	<b>2006</b> <b>(unaudited)</b> (EUR thousand)
Revenue from domestic gas transportation services	434,774	510,248	620,811	183,579
Revenue from international gas transit services	242,316	219,546	212,667	62,888
Revenue from sales of gas	91,130	36,836	71,623	21,180
Revenue from other services	557	558	659	195
<b>Total Revenue</b>	<b>768,777</b>	<b>767,188</b>	<b>905,760</b>	<b>267,842</b>

(1) Figures in EUR were derived using the NBRpublished exchange rate at the end of 2006 of 3.3817 RON/EUR.

In the year ended 31 December 2006, total revenues rose by 18% from RON 767,188 thousand to RON 905,760 thousand as compared to year ended 31 December 2005, due to higher revenues from domestic gas transportation and higher revenues from the sale of gas.

In the year ended 31 December 2005, total revenues remained at comparable levels with 2004, whereas higher revenue from domestic gas transportation was offset by lower revenue from international gas transit services in RON terms and lower revenues from the sale of gas.

### Domestic gas transportation

Transport activity needs to be considered in the context of the revenue cap methodology effective as of 1 July 2004. For the previous period, including the first semester of 2004, the Regulatory Authority was approving the transport tariff based on a cost plus methodology.

As described in the Chapter VI. 2 - "Summary of the methodology for regulated tariffs for the transport activity", the revenue approved by the Regulatory Authority is available for a 12-month period between 1 July and 30 June, resulting in two sets of tariffs being applied to the same fiscal year (one for the 1<sup>st</sup> semester, another for the 2<sup>nd</sup>).

The allowed revenue for each 12-month period ended 30 June in the first regulatory period (1 July 2004 – 30 June 2007) is presented below, together with the realized level.

<i>RON thousand</i> (unaudited)	<u>1 July 2004 – 30 June 2005</u>	<u>1 July 2005 – 30 June 2006</u>	<u>1 July 2006 – 30 June 2007</u>
Allowed revenue in the respective regulated year <sup>(1)</sup>	483,678.8	558,714.8	731,436.8
Volume considered by ANRE (mil m <sup>3</sup> ) <sup>(1)</sup>	17,606	17,028	17,037
Annual Capacity considered by ANRE (mil m <sup>3</sup> ) <sup>(1)</sup>	28,980	29,521	31,099
Realized revenue <sup>(2)</sup>	468,799	556,105	670,345
Realized volume (mil m <sup>3</sup> ) <sup>(2)</sup>	16,318	15,499	14,500
Realized annual capacity (mil m <sup>3</sup> ) <sup>(2)</sup>	28,972	31,659	30,289

<i>RON thousand</i> (unaudited)	<u>1 January - 30 June 2004</u>	<u>1 July – 31 December 2004</u>	<u>1 January - 30 June 2005</u>	<u>1 July – 31 December 2005</u>	<u>1 January - 30 June 2006</u>	<u>1 July – 31 December 2006</u>	<u>1 January - 30 June 2007</u>
Realized revenue	210,170	224,604	244,195	265,998	290,107	330,704	339,641
Realized volume (mil m <sup>3</sup> )	8,495.7	7,211.2	9,107.07	7,339.90	8,159.43	7,077.92	7,21.64
Realized half-year capacity (mil m <sup>3</sup> )	N/A	14,605.52	14,366.78	15,332.48	16,326.57	14,520.10	15,769.36

Source: Transgaz, Management Reports

**Notes:**

(1) Extracted from ANRGN Decision no. 873/14.06.2004, ANRGN Decision no. 463/9.06.2005, ANRGN Decision no. 635/8.06.2006,

(2) Computed based on half- yearr results.

In the 12-month period ended 30 June 2007, the allowed revenue rose by 31% from RON 558,715 thousand to RON 731,437 thousand compared to the 12-month period ended 30 June 2006. Beside inflation adjustment for regulated revenue, the increase was due to recognised return and depreciation for fixed assets commissioned in the previous period and to unexpected repairs expenses incurred due to the floods in 2005, recognized in the following period.

In the 12-month period ended 30 June 2007, actual revenue was lower than the allowed revenue driven by actual lower volumes than those considered by the Regulatory Authority when setting the tariffs. The difference of RON 61,092 thousand between actual and allowed revenue reflects the lower actual volume of transported gas (with 1.5 billion m<sup>3</sup>) driven by the warm weather during the 2006 – 2007 winter. As this is the last year of the first regulatory period, the difference will not be recovered in the following period.

In the 12 month period ended 30 June 2006, the allowed revenue rose by 15.5% from RON 483,679 thousand to RON 558,715 thousand compared to the 12 month period ended 30 June 2005. Beside inflation, the increase was due recognition of return and depreciation of fixed assets commissioned in the previous period and the recognition of the unrealized revenue from the period ended 30 June 2005.



In the 12 month period ended 30 June 2006 and 12 month period ended 30 June 2005, actual revenue was lower than allowed revenue due to lower realized volumes compared with those considered by the Regulatory Authority when setting the tariffs.

*International gas transit and revenue from the sale of gas*

	Year ended December 31,		
	2004	2005	2006
	(audited)	(audited)	(audited)
	(RON thousand)		
Revenue from international gas transit services	242,316	219,546	212,667
Revenue from sales of gas	91,130	36,836	71,623
Cost of gas sold	(89,415)	(36,554)	(71,488)
Gross margin from sale of gas <sup>(1)</sup>	1,715	282	135

**Note:**

(1) *Difference between Revenue from sale of gas and Cost of gas sold.*

Revenues from international transit decreased by 3% in RON terms in the year ended 31 December 2006, as a result of RON appreciation, but remained stable in foreign currency terms, in which the transit services are contracted, as compared to the year ended 31 December 2005.

In the year ended 31 December 2005, revenues from international transit decreased by 9% in RON terms, as a result of RON appreciation, but remained stable in foreign currency terms, in which the transit services are contracted, as compared to the year ended 31 December 2004.

The terms of the transit contracts with Gazprom Export that require partial settlement in gas constitute the basis for the gas sale activity of the Issuer. The gas received as in kind payment is being sold on the domestic market or used to cover technological consumption. During the periods analyzed, the volumes of gas received as settlement for international transit decreased from 290 million mc in the year ended 31 December 2004 to 150.9 million mc in the year ended 31 December 2006 due to the gas price increase on international markets.

In this context, the purpose of the supply activity is to provide the cash related to the transit activity revenue. The Issuer also realizes a gross margin profit from this activity.

Revenues from sales of gas increased by 94% in the year ended 31 December 2006 from RON 36,836 thousand in the year ended 31 December 2005 to RON 71,623 thousand driven by higher volume available for sale. The increase in volumes was due to the fact that the Issuer used less of the gas received to cover technological consumption as the restriction to use a mix of domestic produced gas and imported gas was lifted in June 2006, allowing the Issuer to use only (cheaper) domestic production natural gas to cover technological consumption.

Gross margin decreased by 52% in the year ended 31 December 2006 to RON 135 thousand from RON 282 thousand in the year ended 31 December 2005, due to the limited negotiation power of the Issuer, as it cannot provide secured volumes for longer periods than 1 year.

Revenues from sales of gas decreased by 60% in the year ended 31 December 2005 to RON 36,836 thousand from RON 91,130 thousand in the year ended 31 December 2004. The decrease was due to the fact that the Issuer used more of the gas received to cover technological

consumption (as it was mandatory for the Issuer to use gas from the two sources, domestic production and import in the regulated market basket per MIR Decision 292/2003) rather than selling it on the market.

Gross margin decreased by 84% in the year ended 31 December 2005 to RON 282 thousand from RON 1,715 thousand in the year ended 31 December 2004 due to lower volumes available for sale (60 million m<sup>3</sup> compared with 192 million m<sup>3</sup>) which limited the negotiation power of the Issuer as it cannot provide secured volumes for longer periods than 1 year.

### ***Other income***

Other operating income comprises income not related to the Issuer's revenue. In the year ended 31 December 2006, sale of intangibles of RON 18,052 thousand to SNGN Romgaz and sale of investment in Romexterra Bank of RON 2,219 thousand have been recognized in other income. In the year ended 31 December 2005, other income contained a RON 6,905 thousand reimbursement of interest overpaid to the State Budget.

### ***Operating expenses***

Operating expenses comprise technological consumption, materials and consumables, cost of gas sold, labour costs, maintenance and repairs, transport, third party services, royalties, depreciation and amortisation, and other expenses.

The revenue cap methodology divides the operating expenses generated by the transport activity in two categories: company related and pass through costs. Pass through costs consist of royalties, other taxes and salary contributions, while company related costs consist of the remaining categories except for provisions for liability and charges and for expenses related to the employees profit sharing.

The Concession Agreement terms and conditions state that the Issuer must pay an annual royalty fee from its transport and transit revenues. The royalty fee between 1 of January 2004 and 30 June 2007 was of 5%. Starting with 8 of October 2007 the royalty fee was increased from 5% to 10%. Any expense concerning the royalty fee, taxes and other duties are pass through costs, according to the "revenue-cap" methodology, and are considered in computing the allow revenue.

The following table shows the operating expenses for the periods ended 31 December 2004, 31 December 2005 and 31 December 2006.

	Year ended December 31,		
	2004	2005	2006
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
	(RON thousand)		
Cost of gas sold	89,415	36,554	71,488
Technological consumption – gas	123,861	164,735	168,251
Materials and consumables used	13,270	12,133	10,773
Depreciation and amortisation	154,524	161,203	165,297
Labour costs	137,192	142,613	178,742
Maintenance	9,794	34,986	54,657
Transportation	5,156	5,900	6,851
Royalty expense	33,854	35,851	42,313
Third party services	8,631	10,907	11,690
Taxes and other state dues	2,940	2,986	8,053
Provision for liabilities and charges *	1,000	-	278
Other operating expenses	34,917	34,535	40,283
<b>Total operating expenses</b>	<b>614,554</b>	<b>642,403</b>	<b>758,676</b>

**Notes**

(1) Operating expenses were rearranged to better reflect the key components using the details from the management accounts.

Cost of gas sold is a non-cash expense, which results from the partial settlement in kind related to international transit activity with Gazprom Export. The cost of gas sold in the period analyzed went broadly in line with the revenue from gas sold.

In the year ended 31 December 2006, operating expenses rose by 18% from RON 642,403 thousand to RON 758,676 thousand as compared to year ended December 31, 2005. The increase was mainly due to higher cost of gas sold, higher labour costs as well as higher maintenance and repair costs.

In the year ended 31 December 2005, operating expenses rose by 4% from RON 614,554 thousand to RON 642,403 thousand as compared to year ended 31 December 2004. The increase was mainly due to higher technological consumption and higher maintenance costs, which were partly offset by lower cost of gas sold.

Labour costs, and those with technological consumption and maintenance and repairs are the main cash expenses of the Issuer. Their weight in total operating expenses excluding depreciation, amortisation and cost of gas increased from 73% in the year ended 31 December 2004 to 77% in the years ended 31 December 2005 and 31 December 2006.

**Labour Costs**

The following table shows the development and breakdown of labour costs for the period ended 31 December 2004, 31 December 2005, 31 December 2006.

	Year ended December 31,		
	2004	2005	2006
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
	(RON thousand)		
Wages and salaries	124,418	121,006	146,701
Base wages and salaries	104,782	116,193	141,329
Employees profit sharing	19,636	4,813	5,372
Other employee benefits (adjusted) <sup>(1)</sup>	11,474	20,807	31,891
Other employee benefits	-	20,312	43,860
Provision / (Release) for litigation	11,474	495	(11,969)
Provision for employee benefits	1,300	800	150
<b>Labour costs</b>	<b>137,192</b>	<b>142,613</b>	<b>178,742</b>

**Note:**

(1) The Issuer paid part of the benefits (gas quota) towards employees and recorded the related expense. For the remaining part, as it was in litigation with the union, it has built a provision for the respective litigation. As the Issuer lost the lawsuit, the effective expense related to the gas quota is obtained by aggregating the two components, operating and financial.

In the year ended 31 December 2006, as compared to the one ended 31 December 2005, wages and salaries increased by 21% from RON 121,006 thousand to RON 146,701 as a result of higher base wages and salaries and a higher number of employees. The number of employees rose by 2% to 4,838 employees as compared to the year ended 31 December 2005. Other employee benefits rose from RON 20,807 thousand to RON 31,891 thousand partly offset by the release of provisions. Total labour costs rose by 26% as compared to the year ended 31 December 2005.

In the year ended 31 December 2005, as compared to the one ended 31 December 2004, wages and salaries decreased by 2% from RON 124,418 thousand to RON 121,006 as a result of lower profit sharing offsetting higher base wages and salaries. The number of employees rose by 2% to 4,755 as compared to the year ended 31 December 2004. Other employee benefits raised from RON 11,474 thousand to RON 20,807 thousand due to the increase of the natural gas quota to 5,000 cubic meters. Total labour costs rose by 4% as compared to the year ended 31 December 2005.

**Technological consumption expenses**

In the year ended 31 December 2006, technological consumption increased by only 2% from RON 164,735 thousand to RON 168,251 thousand as compared to the year ended 31 December 2005, as a result of :

- a reduction in gas volume from 399.2 million cm in the year ended December 31, 2005 to 388.5 million cm in the year ended 31 December 2006;
- decrease of the acquisition unit cost of natural gas necessary to cover technological consumption. The change in the regulation regarding gas acquisition to cover technological consumption (see revenue from international transit and sale of gas section) allowed the Issuer to acquire, starting with June 2006, only domestically produced gas (cheaper) unlike the prior period when the acquisition price was established based on a mix

basket of imported and domestically produced natural gas. In the year ended 31 December 2005, technological consumption increased by 33% from RON 123,861 thousand to RON 164,735 thousand as compared to the year ended 31 December 2004 due to increased acquisition price for both domestic and imported gas, partially offset by the volume reduction from 429.5 million cm in the year ended 31 December 2004 to 399.2 million cm in the year ended 31 December 2006.

### ***Maintenance and repair expenses***

During the period under review, the Issuer has changed its strategy regarding network rehabilitation from investment in new pipelines (to replace the obsolete ones) towards general technical inspections and replacement only of the damaged sections of the existing pipelines. As a consequence, maintenance expenses increased by 56% in the year ended 31 December 2006 from RON 34,986 thousand to RON 54,657 thousand as compared to the year ended 31 December 2005 when these increased by 157% from RON 9,794 thousand in the year ended 31 December 2004 to RON 34,986 thousand in the year ended 31 December 2005.

The weight of the Issuer related expenses (labour costs, technological consumption and maintenance) in revenue from core activities – transport and transit – increased from 40% in the year ended 31 December 2004 to 48% in the year ended 31 December 2006 as their growth was higher than that of revenues. The main driver of the superior growth of expenses was the salary positive real growth and increased benefits (gas quota) not covered by the evolution of the transport allowed revenue by the Regulatory Authority (capped to grow only with inflation).

	<b><u>2004</u></b>		<b><u>2005</u></b>		<b><u>2006</u></b>	
	<b>(audited)</b>		<b>(audited)</b>		<b>(audited)</b>	
	<i>RON</i>	<b>% of</b>	<i>RON</i>	<b>% of</b>	<i>RON</i>	<b>% of</b>
	<i>thousand</i>	<b>operating</b>	<i>thousand</i>	<b>operating</b>	<i>thousand</i>	<b>operating</b>
		<b>expenses</b>		<b>expenses</b>		<b>expenses</b>
Core activities	513,619	83.6%	594,902	92.6%	671,162	88.5%
Transport	455,063	74.2%	505,958	78.8%	614,083	80.9%
Transit	58,556	9.5%	88,944	13.8%	57,079	7.5%
Cost of gas sold	89,415	14.5%	36,554	5.7%	71,488	9.4%
Other expenses <sup>(1)</sup>	11,520	1.9%	10,947	1.7%	16,026	2.1%
Operating expenses	614,554	100.0%	642,403	100.0%	758,676	100.0%
	<b>(unaudited)</b>		<b>(unaudited)</b>		<b>(unaudited)</b>	
	<i>RON</i>	<b>% of</b>	<i>RON</i>	<b>% of</b>	<i>RON</i>	<b>% of</b>
	<i>thousand</i>	<b>operating</b>	<i>thousand</i>	<b>operating</b>	<i>thousand</i>	<b>operating</b>
		<b>expenses,</b>		<b>expenses,</b>		<b>expenses,</b>
		<b>excluding</b>		<b>excluding</b>		<b>excluding</b>
		<b>cost of</b>		<b>cost of gas</b>		<b>cost of gas</b>
		<b>gas sold</b>		<b>sold</b>		<b>sold</b>
Core activities	513,619	97.8%	594,902	98.2%	671,162	97.7%
Transport	455,063	86.7%	505,958	83.5%	614,083	89.4%
Transit	58,556	11.2%	88,944	14.7%	57,079	8.3%
Other expenses <sup>(1)</sup>	11,520	2.2%	10,947	1.8%	16,026	2.3%
Operating expenses, excluding cost of gas sold	525,139	100.0%	605,849	100.0%	687,188	100.0%

**Note:**

(1) *Other expenses include expense not related to core activities and cost of gas sold.*

Referring to segment reporting, in the year ended 31 December 2006 operating expenses related to core activities – transport and transit, represent 97.7% of the total operating expenses, excluding cost of gas sold. The share of transport activity represents 89.4% of the operating expenses, excluding cost of gas sold.

In the year ended 31 December 2005, transport activity operating expenses share of total operating expenses excluding cost of gas sold decreased to 83.5% from 86.7% in the year ended 31 December 2004 driven by a higher level of the maintenance expenses for the transit activity.

**Operating profit**

Operating profit refers to earnings before interest, taxes and is a financial measure used by the Issuer to measure its operating performance. As for the revenue, the profit from operations needs to be considered for each activity of the Issuer.

<i>RON thousand</i>	<u>2004</u> (audited)	<u>2005</u> (audited)	<u>2006</u> (audited)
Core activities	164,028	135,449	162,316
Transport	(20,289)	4,290	6,728
Transit	184,317	131,159	155,588
Sale of gas	1,715	282	135
Unallocated <sup>(1)</sup>	(6,093)	2,431	13,830
<b>Operating profit</b>	<b>159,650</b>	<b>138,162</b>	<b>176,281</b>

*Note:*

(1) *Unallocated includes items not related to core activities – transport and transit.*

In the year ended 31 December 2006, operating profit increased by 27.6% from RON 138,162 thousand to RON 176,281 thousand as compared to the year ended 31 December 2005. The increase in operating profit was driven by an increase of 18.6% in the profit for the international transit business due to lower maintenance expenses and by an increase in operating profit of 56.8% in the domestic transport business due to higher revenue growth compared with expenses. In addition, profit from operations includes non-recurring gains from sale of intangible and investment amounting to RON 20,271 thousand.

In the year ended 31 December 2005 operating profit decreased by 13% from RON 159,650 thousand to RON 138,162 thousand as compared to the year ended 31 December 2004. The decrease in operating profit was due to the decrease in operating profit of 28.8% in the international transit business due to higher maintenance expenses, and was partly offset by an increase in operating profit in the domestic transport business.

**Financial income and financial expense**

Financial result comprises financial income (e.g. interest receivable on funds invested, foreign exchange gains) and financial expense (e.g. interest payable on liabilities and foreign exchange losses).

For the year ended 31 December 2006, the net financial result rose to a gain of RON 17,797 thousand from a loss of RON 22,384 thousand in the year ended 31 December 2005. This improvement was due to a higher foreign exchange result amounting to RON 31,613 thousand, because of RON appreciation, while the net interest result remained stable amounting to RON 13,015 thousand.

For the year ended 31 December 2005, the net financial result declined to a loss of RON 22,384 thousand from a gain of RON 9,186 thousand in the year ended 31 December 2004. The negative net financial result was due to a net foreign exchange loss amounting to RON 8,625 thousand, due to RON depreciation against USD, while the net interest result remained close amounting to RON 13,724 thousand.

### ***Income tax***

Income tax on the profit or loss of the period comprises current and deferred income tax.

As of 1 January 2005, the nominal income tax rate in Romania has been lowered from 25% to 16%. Though the Issuer only operated in Romania and had no subsidiaries outside Romania differences between IFRS, Romanian Accounting Standards and Romanian fiscal regulations lead to divergent effective tax rates in the periods under review.

In the year ended 31 December 2006, the Issuer incurred income tax expenses of RON 32,517 thousand, being equivalent to an effective tax rate of 16.75%.

In the year ended 31 December 2005, the Issuer incurred income tax expenses of RON 19,774 thousand, being equivalent to an effective tax rate of 17.08%.

In the year ended 31 December 2004, the Issuer registered a revenue from an income tax release of RON 55,224 thousand due to a revenue from a deferred income tax, resulted from a reduction in the nominal tax rate from 25% to 16%, which lead to the recognition of a portion of the deferred income tax as revenue.

The accounting differences between IFRS and the Romanian Standards, which cause the deferred income tax issue, mainly arise in connection with the depreciation of assets restated in accordance with the application of IAS 29 and the different treatment of the public property assets depreciated only under IFRS.

### ***Net profit for the period***

In the year ended 31 December 2006, net profit rose by about 68% compared to the year ended 31 December 2005 and reached RON 161,561 thousand. This increase resulted from a higher operating profit and a higher net financial result.

In the year ended 31 December 2005, net profit fell by about 57% from RON 224,060 thousand in the year ended 31 December 2004 and reached RON 96,004 thousand. This decrease was due to a lower operating profit, net financial loss and the reversal from a tax release in the year ended 31 December 2004 to a tax expense in the year ended 31 December 2005.

## 6. Liquidity and Capital Resources

### Liquidity

During the reviewed period, the Issuer's capital structure experienced reduced leverage as long term debt decreased from RON 200,845 thousand as of 31 December 2004 to RON 130,071 thousand as of 31 December 2005.

The Issuer has contracted long-term debt in foreign currencies (EUR and USD), the majority having floating rates. The Issuer contracted loans from the following financial institutions: BIRD, Gazprombank, Raiffeisen Bank, ABN AMRO and Efibanca Spa.

On the short term, the Issuer has contracted two loan facilities from BRD and ABN AMRO Bank, that it uses as credit lines. These are used for financing the Issuer's current operating needs only for making the payments in case of shortages. Further information concerning loan facilities are presented in Chapter XI – Important contracts.

The investment program during the reviewed period was mainly financed through retained earning as the Issuer was allowed to retain the dividend for the year ended 31 December 2003 and 31 December 2004 (net of related dividend tax).

According to the information provided by the Issuer, the investment programme for the year 2007 is mainly financed out of own sources. Additional loans will be contracted if the own sources prove to be insufficient.

After 30 June 2007, the Issuer signed a long term loan contract with Unicredit Tiriac for 100,600,000 RON with a tenor of 5 years, in order to finance its investment plan.

The following table shows the Issuer's cash flow for the years ended 31 December 2004, 31 December 2005 and 31 December 2006.

<i>RON thousand</i>	<b>Year ended 31 December</b>		
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
	(audited)	(audited)	(audited)
Profit before taxation	168,836	115,778	194,078
<i>Adjustments for:</i>			
Depreciation and amortisation	154,524	161,203	165,297
Impairment loss of property, plant and equipment	18,302	-	-
(Profit)/Loss on disposal of fixed assets	6,371	7,743	(13,826)
(Release)/Provisions for liabilities and charges	12,474	495	(11,691)
Provision for employee benefits	1,300	800	150
(Release)/Provisions for debtors and inventories	(14,597)	4,099	10,100
Bad debts written off	2,450	85	-
Net interest expense	12,899	13,724	13,015
Effect of exchange rate changes on non-operating items	(25,640)	9,829	32,026
<b>Operating profit before working capital changes</b>	<b>336,919</b>	<b>313,756</b>	<b>389,149</b>
(Increase)/decrease in trade and other receivables	101,635	(23,101)	(20,225)
Decrease/(increase) in inventories	(2,756)	2,558	2,952



Increase/(decrease) in trade and other payables	<u>(20,923)</u>	<u>21,002</u>	<u>9,407</u>
<b>Cash generated from operations</b>	<b><u>414,875</u></b>	<b><u>314,215</u></b>	<b><u>381,283</u></b>
Interest paid, net	(12,769)	(13,813)	(12,870)
Income taxes paid	<u>(65,314)</u>	<u>(54,592)</u>	<u>(35,628)</u>
<b>Net cash inflow from operating activity</b>	<b>336,792</b>	<b>245,810</b>	<b>332,785</b>
<b>Cash flow from investment activities</b>			
Payments to acquire property, plant and equipment	(283,920)	(223,228)	(147,176)
Proceeds from disposal of property, plant and equipment	-	(7,743)	20,272
Dividends received	8	32	-
Sale of financial investments	-	1	1,157
Acquisition of financial investments	<u>(233)</u>	-	-
<b>Net cash used in investment activities</b>	<b>(284,145)</b>	<b>(230,938)</b>	<b>(125,747)</b>
<b>Cash flow from financing activities</b>			
Dividends paid	(32,960)	-	(71,391)
Proceeds from long term borrowings	9,937	6,562	-
Repayments of long term borrowings	<u>(50,150)</u>	<u>(13,849)</u>	<u>(104,678)</u>
<b>Net cash used in financing activities</b>	<b>(73,173)</b>	<b>(7,287)</b>	<b>(176,069)</b>
<b>Net change in cash and cash equivalents</b>	<b>(20,526)</b>	<b>7,585</b>	<b>30,969</b>
Cash and cash equivalents at the beginning of the year	<u>42,911</u>	<u>22,385</u>	<u>29,970</u>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>22,385</u></b>	<b><u>29,970</u></b>	<b><u>60,939</u></b>

#### *Cash flow from operating activity*

In the year ended 31 December 2006, net cash flow from operating activity increased to RON 332,785 thousand compared to RON 245,810 thousand in the year ended 31 December 2005 mainly due to a higher profit from operations. While cash generated from operations increased by about 21% compared to the year ended 31 December 2005, net cash flow from operating activities increased by 35% mainly due to lower income taxes paid.

In the year ended 31 December 2005, net cash flow from operating activity dropped to RON 245,810 thousand, compared to RON 336,792 thousand in the year ended 31 December 2004 mainly due to lower profit from operations and working capital changes. While operating cash flow before working capital decreased by about 7% compared to the year ended 31 December 2004, the change in working capital negatively impacted the cash flow as compared to positive working capital changes in the year ended 31 December 2004.

In the year ended 31 December 2004, net cash flow from operating activity reached RON 336,792 thousand. Changes in working capital had a significant positive contribution to the net

cash flow from operating activities amounting to RON 77,956 thousand caused by a decrease in trade and other receivables as major clients settled overdue balances (SC Distrigaz Nord S.A., SNP Petrom S.A.).

#### *Cash flow from investing activities*

The Issuer has acquired property, plant, and equipment having a cash flow impact of RON 147,176 thousand in the year ended 31 December 2006, RON 223,228 thousand in the year ended 31 December 2005 and RON 283,920 thousand in the year ended 31 December 2004. For a closer description of investments in property, plant, equipment and intangibles, see Chapter VIII – Section – Investment Policy.

The cash inflow of RON 20,272 thousand in the year ended 31 December 2006 mainly relates to the sale of domestically produced intangibles to SNGN Romgaz, amounting to RON 18,051 thousand. The cash inflow of RON 1,157 thousand relates to the sale of investment in Banca de Credit și Dezvoltare Romexterra SA.

#### *Cash flow from financing activities*

Cash flow from financing activities in the period under review comprised the dividends paid, long term borrowings and the repayment of long term borrowings.

Net cash used in financing activities in the year ended 31 December 2006 rose from RON 7,287 thousand to RON 176,069 thousand as compared to the year ended 31 December 2005 due to dividend payments of RON 71,391 thousand and repayments of long term borrowings of RON 104,678 thousand.

Net cash used in financing activities in the year ended 31 December 2005 decreased from RON 73,173 thousand to RON 7,287 thousand as compared to the year ended 31 December 2004 due to the lack of dividends paid and lower repayments of long term borrowings.

Net cash used in financing activities in the year ended 31 December 2004 amounted to RON 73,173 thousand and comprised dividend payments and repayments of long term borrowings.

### ***Liabilities***

The following table summarizes the maturity structure of the liabilities, provisions and deferred income recorded on the Issuer's balance sheet as of 31 December 2006:

<i>RON thousand</i>	<b>Up to 1 year</b>	<b>Over 1 year</b>	<b>Total</b>
Long term borrowings (audited)	-	130,071	130,071
Short term borrowings including current portion of long term borrowings (audited)	65,709	-	65,709
Trade payables (audited)	79,354	-	79,354
Other payables (unaudited)	87,654	51,718	139,372
Current income tax liabilities (audited)	16,859	-	16,859
Deferred tax liability (audited)	5,799	125,828	131,627
Deferred income <sup>(1)</sup> (audited)	-	49,144	49,144
Provision for liabilities and charges (audited)	1,278	-	1,278
Provision for employee benefits (audited)	-	11,452	11,452
<b>Total liabilities</b>	<b>256,653</b>	<b>368,213</b>	<b>624,866</b>

**Notes:**

- (1) *Deferred income consists in connection fees charged to customers for connecting them to the gas transportation network. This sum is non-repayable and non-interest bearing.*

Other payables over 1 year as set out in the table above represent additional distribution payables (late payment interest for declared and unpaid dividends) to the Ministry of Economy and Finance for the period 2000 – 2003. The Issuer's majority shareholder has informed the management that the payment of the penalties will be deferred until further notice, allowing the Issuer to use of the respective amount for continuing to develop de network.

Currently, Transgaz has a BB+ rating with positive outlook for long-term corporate loans from Standard & Poor's Rating Services.

## **7. Assumed investment commitments**

According to the Addendum no. 2 to the Concession Agreement, the Issuer is obliged to carry out investment and repair works amounting to RON 1,029.84 million during the period 2007-2011 (for more information see Chapter VIII.3 – Investment Policy).

## **8. Legal and arbitration procedures**

The Issuer states that it has not been involved in government or arbitration procedures (including any such ongoing or potential procedures known to the Issuer) in the last twelve months at least that might have or recently has significant effects on the Issuer's financial condition or profitability.

On 30 June 2007, the Issuer was involved in a number of litigations, both as plaintiff and defendant. We list below the litigation with an estimated value exceeding EUR 100,000 or equivalent, litigation the value of which has not been determined yet or having an object which cannot be assessed in money, which are related to the Issuer's specific activity, as well as the litigation and notices according to Law no. 10/2001.

***Litigations in which Trangaz has the quality of defendant - litigations with a value exceeding the equivalent of EUR 100,000 or the value of which has not been determined or having an object which cannot be assessed in money***

The Issuer, as defendant, is involved in a number of 31 litigations with a value exceeding the equivalent of EUR 100,000 or the value of which has not been determined yet or having an object which cannot be assessed in money, these having, in general, the following objects:

- payment of certain amounts of money based on contractual relationships;
- actions for claims consisting in the payment of indemnities for not having used certain plots of land in private property;
- actions having as object the obligation to do, requesting (i) to modify/change the course or certain natural gas underground pipelines, in certain cases indemnities being claimed for not using and/or for the rent due for using the land; (ii) to restore the plots of land to the initial conditions, together with damages interests; (iii) to commission certain natural gas

supply systems; (iv) to carry out works related to natural gas systems; (v) to elaborate documentations or to supply information;

- actions for annulment of certain assessment decisions of the assessment commission in case of some public procurement tenders;
- actions for claiming certain plots of land.

***Litigations in which Trangaz has the quality of plaintiff - litigations with a value exceeding the equivalent of EUR 100,000 or the value of which has not been determined yet or having an object which cannot be assessed in money***

The Issuer is party, as plaintiff/ creditor, in 19 litigations with a value exceeding the equivalent of EUR 100,000 or the value of which has not been determined yet or having an object which cannot be assessed in money, as follows:

- The Issuer has the quality of plaintiff/creditor in 13 commercial cases, having as object the insolvency procedure. In all these cases, the Issuer's receivable is registered in the preliminary or final table of receivables, as the case may be.
- The Issuer has the quality of plaintiff in 4 litigations having as object commercial claims representing the value of certain transport services performed for Termoelectrica S.A.;
- The Issuer has the quality of plaintiff in 2 litigations having as object the evacuation from intervention dwellings.

Information regarding these litigations is contained in Annex 28.

***Requests for restitution***

The Issuer is involved in a number of 7 notices for restitution formulated by individuals according to Law no. 10/2001, as well as in one litigation for the cancelling a decision of local authorities regarding the resolution of a notice based on Law no. 10/2001.

The object of these notices is the restitution of certain immovable assets or the granting of the equivalent indemnities, according to Law no. 10/2001. In many cases, the notices submitted according to Law no. 10/2001 were rejected, while such rejected notices may lead to litigation according to Law no. 10/2001.

At the same time, there are cases in which the Issuer declined its competence to settle the notices to the competent prefect's office.

After 30 June 2007 a notice sent by Targu Secuiesc Town hall was received, claiming indemnities in equivalent for a piece of land of 4,791 square meters, formulated by Szabo Ileana Ana. This notice has the same object as of the action formulated by the same person for cancelling the land book resolution regarding the registration of the Issuer's right regarding the same premises. The Issuer intends to convoke the plaintiff for conciliation purposes.

The Issuer was involved in a restitution request, based on the art. 19(2) of Law no. 10/2001, having as object the restitution, in kind or by equivalent, of the premises located at 20 Piata Regele Ferdinand, Medias, submitted by Schieb Doris Hildegard. According to the final and irrevocable decision no. 185/A/2006 of the Court of Appeal Alba Iulia, with enforceable title, the Issuer was compelled to issue a decision by which it offered to the plaintiff repairing measures in equivalent consisting in nominal securities used in the privatization process or shares traded on

the capital market for the amount of ROL 3,988,378,745. Therefore, the Issuer issued the decision no. 50/22.02.2007 by which it ordered the elaboration of the file corresponding to the Methodological Norms for the application of Title VII – Conditions for determining and paying the indemnities for the premises taken over abusively – of Law no. 247/2005, approved by Government Decision (HG) nr. 1095/2005, and its submission, together with the decision of the Court of Appeal Alba Iulia, to the Central Commission for Indemnities in order to adopt the decision to grant indemnities.

At the same time, the Issuer is the defendant in connection to a claim for the partial cancellation of the decision made by local authorities in order to solve a notice elaborated based on Law no. 10/2001.

Information regarding notices / litigations, is contained in the Annex 28.

### ***Administrative procedures***

The validity of an ownership certificate (i.e. the certificate series M03 no. 9400 of 8 June 2004 issued by the Ministry of Economy and Commerce), having as object a plot of land of 2,375.07 sqm was partially questioned (namely for an area of 1,368 sqm) in a previous complaint formulated by the Town Hall of Braila Municipality, according to Law no. 554/2004 of contentious business falling within the competence of administrative courts. According to the information available to the Issuer, this complaint is in the process of being settled.

The value of the plot of land for which the ownership certificate was obtained (namely RON 9,388.47) was included in the Issuer's share capital. Following the completion of the prior administrative procedure and of a possible civil action for this purpose, the consequences of this situation will be assessed.

### ***Conciliation notices received by Transgaz***

The Issuer received a number of 12 convening notices to prior conciliation, mainly representing requests to change/modify the course of certain gas pipelines or to stop certain works on land owned privately by natural or legal persons, or other aspects regarding the limitation of the property right over the land and, in addition, indemnities for not using the land.

In one case, the Issuer initiated the prior conciliation procedure regarding the payment of transport services.

Information regarding the prior conciliation notices received by Transgaz is presented at Annex 28.

### ***Provisions registered by the Issuer in connection with its current litigations***

The Issuer registered the following provisions for litigations, both as defendant and as plaintiff:

The Issuer built a provision for the litigation with Petrom regarding the Contract no. 1520/1998, as defendant, the provision being registered in 2005. The commercial sentence no. 5373/19.04.2007 rejected the action initiated by Petrom for the payment of natural gas supplied based on the contract mentioned above as not being grounded. Subsequently, Petrom S.A. initiated the appeal that is currently ongoing and a decision is expected to be communicated. The provisioned amount was of RON 1,278 thousand on 31 December 2006, having the same value also on 30 June 2007.

In 2004, SNTGN Transgaz granted a loan to SC Resial S.A. for financing its current activity. At the end of 2004, the balance of this loan was of RON 2,344 thousand. During the following year, Transgaz granted an additional amount of RON 724 thousand so that, at the end of 2005, the final balance of the loan was of RON 3,068 thousand. SC Resial S.A. was declared bankrupt and Transgaz was included in the list of creditors. The Issuer is in litigation with SC Resial SA as plaintiff. During 2006 some assets belonging to SC Resial S.A. were sold and Transgaz received RON 833 thousand, thus diminishing the loan balance at the end of 2006 down to RON 2,235 thousand. At the end of 2006, Transgaz decided to keep the provision for the entire balance of the loan granted, amounting to RON 2,235 thousand, while on 30 June 2007 the provisioned value was decreased to RON 2,196 thousand.

With respect to the litigations exceeding EUR 100,000 Euro in which the Issuer is the plaintiff, the following provisions for receivables depreciation were registered:

<b>RON Defendant</b>	<b>Provision value on 31 December 2006</b>	<b>Provision value on 30 June 2007</b>	
DELTA TELECOM	2,263,026	2,263,026	Insolvency
MELANA SAVINESTI	127,859	127,859	Insolvency
NECTAR PASCANI	169,192	169,192	Insolvency
NITRAMONIA FAGARAS	3,015,305	3,015,305	Insolvency
SERE BRASOV	3,004,225	3,004,225	Insolvency
SIDERCA CALARASI	999,967	999,967	Insolvency
SIDERMET CALAN	194,495	194,495	Insolvency
TERMOELECTRICA	72,498,395	66,459,263	Value of services provided
SIRONEX	6,169,835	6,169,835	Insolvency
<b>Total</b>	<b>88,442,299</b>	<b>82,403,167</b>	

#### *Significant changes in the financial or commercial status*

The Issuer states that there are no significant changes in the financial or commercial position that occurred from the end of the last financial period for which interim financial statements were published, namely 30 June 2007. There were no significant changes from the data presented in the Prospectus concerning the financial-economic status of the Issuer.

#### *Net working capital*

The Issuer states that, in its opinion, the net working capital is not sufficient for its current obligation and, in addition, it has contracted bank loans.

#### *Shareholders' equity and indebtedness*

The Issuer states that the level of shareholders' equity as per the trial balance on 31.08.2007 is of RON 1,241,062,604 and the indebtedness rate is of 39.03%. According to the trial balance long term debt includes the debt related with the public property, amounting RON 490,809,194. All the Issuer's bank loans are guaranteed.

## 9. Operations with related parties

According to the definition of related persons from the Capital Market Law, we may consider that the companies where the Romanian State holds interests and that may be considered under the control of the latter are related parties in connection to the Issuer.

According to the provisions of the Capital Market Law, related parties are:

- a) persons that control or are controlled by the Issuer or that are under a common control;
- b) persons directly or indirectly participating in the conclusion of agreements for obtaining or exercising in common voting rights if the shares subject to such agreements may offer a control position;
- c) individuals within the Issuer who have management or control duties;
- d) spouses, relatives and 2<sup>nd</sup> degree relatives of the individuals mentioned at letters a)-c);
- e) persons that may appoint the majority of members of the Issuer's board of directors.

In addition, as *control* is defined as the relation between the parent company and a subsidiary or a similar relation between any natural or legal person and a company, and a parent company as a natural person, shareholder or associate of a company in one of the following cases:

- a) directly or indirectly holding the majority of voting rights within it;
- b) may appoint or revoke most of the members of management or control bodies or other persons with decision-making power within the respective company;
- c) may have a significant influence on the entity where it is shareholder or associate based on some provisions included in the contracts concluded with the respective entity or in the articles of association of such an entity;
- d) is shareholder or associate of an entity and (i) it appointed alone, as a result of exercising its voting rights, most of the members of management or control bodies or most of the respective branch's managers during the last two financial periods or (ii) controls alone, based on an agreement concluded with the other shareholders or associated, most of the voting rights.

The Issuer's has ongoing contractual relations with the following companies that may be considered related parties according to the definition in the Capital Market Law: S.N.G.N. Romgaz, Termoelectrica S.A., Electrocentrale Deva S.A., Electrocentrale Bucuresti S.A., Electrocentrale Galati S.A., E.ON Gaz S.A., Distrigaz Sud S.A., Petrom S.A. and that operate in the natural gas sector, as follows:

- Regulated contracts for natural gas transport concluded with: E.ON Gaz SA, Distrigaz Sud SA, Electrocentrale Bucuresti S.A., Petrom S.A., Termoelectrica S.A., Electrocentrale Galati S.A., Electrocentrale Deva S.A.

The summary of the main terms and conditions of these transport contracts is presented in Annex 19 – Contracts with related parties.

The contracts for natural gas transport concluded by the Issuer include the parties' confidentiality provision, they being obliged, during the contract's validity period, to keep the confidentiality of the data, documents and information obtained based thereon. The Issuer believes, considering the public nature of the information included in such contracts,

that the confidentiality obligations are no longer valid. Therefore, it is not necessary to obtain the agreement of the contracting parties for their disclosure.

- Contract for natural gas acquisition for its own technological consumption concluded with S.N.G.N. Romgaz.

The summary of the main terms and conditions of this contract is presented in Annex 24.

The Issuer does not consider related parties other Romanian companies mainly held by the state. The Issuer granted loans to SC Resial SA according to the loan contract no. 7677/28 July 2004 for financing its current activity. Considering that Resial SA has subsequently undergone the bankruptcy procedure, the receivable of Transgaz against Resial S.A. based on this loan contract was included in the total receivables amount during the bankruptcy procedure. Additional information is included in Chapter VI - Operating and financial review - Section 8 - Legal and arbitration procedures: Registered provisions regarding litigations in which the Issuer is involved.

For granting the loan given on the basis of the mentioned loan agreement, the Issuer concluded an agreement of real guarantee over the supply of goods held by Resial S.A.

Details regarding the contracts with related parties are included in Annex 19; see also Chapter XII – Property, plant and equipment - Land and buildings for information on the contracts for land acquisition concluded with Distrigaz Sud SA.

The Issuer states that there are no contracts or other agreements concluded by it with the companies in which it holds interests, excepting the loan contract signed with Resial S.A. and its guarantees. .

#### **Transactions and balances in relation to such entities:**

Loans to related parties

*RON thousand -*

<b>Societatea</b>	<b>31 December 2004</b>	<b>31 December 2005</b>	<b>31 December 2006</b>	<b>June 2007</b>
Loan to Resial SA	2,432	3,068	2,235	2,196
Provision for impairment of loan	(2,432)	(3,068)	(2,235)	(2,196)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

*Source: IFRS compliant financial statements*

Income from gas sales and gas transport services

*RON thousand -*

<b>Company</b>	<b>31 December 2004</b>	<b>31 December 2005</b>	<b>31 December 2006</b>	<b>30 June 2007</b>
SNGN Romgaz	135,609	44,124	51,843	2,620
Termoelectrica	12,869	7,282	16,916	11,028
Electrocentrale				
Deva SA	6,572	4,690	6,838	2,645
Electrocentrale				
Bucuresti SA	67,043	70,588	93,609	50,748
Electrocentrale	-	6,778	15,219	7,381



Galati SA				
BAT Medias	-	-	2	1
Grup Dezvoltare				
Retele SA	-	-	-	309
<b>Total</b>	<b>222,093</b>	<b>133,462</b>	<b>184,427</b>	<b>74,732</b>

Source: IFRS compliant financial statements

Note: As of 30 June 2007, the company BAT Medias was no longer a related party as, on this date, Mr. Florin Munteanu was no longer general manager within the Issuer.

- RON thousand -

Company	31 December 2004	31 December 2005	31 December 2006	30 June 2007
E.ON Gaz				
Romania SA	111,707	125,580	148,383	77,502
Distrigaz Sud SA	156,689	136,873	162,331	92,974
Petrom SA	16,971	18,838	32,463	14,243

Source: Transgaz, Management Reports, unaudited figures

### Trade receivables

RON thousand -

Company	31 December 2004	31 December 2005	31 December 2006	30 June 2007
SNGN				
Romgaz	890	-	68	7
Termoelectrica (net of provision)	58,839	28,246	15,207	11,208
Electrocentrale Deva SA	1,354	385	999	279
Electrocentrale Bucuresti SA	6,746	7,320	20,516	3,496
Electrocentrale Galati SA	-	880	1,376	564
BAT Medias	-	-	0	0
Grup Dezvoltare				
Retele SA	-	126	-	9
<b>Total</b>	<b>67,829</b>	<b>36,957</b>	<b>38,166</b>	<b>15,563</b>

Source: IFRS compliant financial statements

RON thousand -

Company	31 December 2004	31 December 2005	31 December 2006	30 June 2007
E,ON Gaz				
Romania SA	26,036	24,950	29,683	10,734
Distrigaz Sud SA	37,727	34,478	45,066	13,253
Petrom SA	1,828	2,208	2,761	3,153

Source: Transgaz, Management Reports, unaudited figures

### Acquisitions of natural gas from related parties

RON thousand -

<b>Company</b>	<b>31 December 2004</b>	<b>31 December 2005</b>	<b>31 December 2006</b>	<b>30 June 2007</b>
S.N.G.N.				
Romgaz	62,320	91,721	142,056	68,191
<b>Total</b>	<b>62,320</b>	<b>91,721</b>	<b>142,056</b>	<b>68,191</b>

Source: IFRS compliant financial statements

Acquisitions of other services from related parties

- RON thousand -

<b>Company</b>	<b>31 December 2004</b>	<b>31 December 2005</b>	<b>31 December 2006</b>	<b>30 June 2007</b>
BAT Medias	-	-	1,374	327
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,374</b>	<b>327</b>

Source: IFRS compliant financial statements

Debts to suppliers of natural gas

RON thousand -

<b>Company</b>	<b>31 December 2004</b>	<b>31 December 2005</b>	<b>31 December 2006</b>	<b>30 June 2007</b>
SNGN				
Romgaz	20,207	43,691	54,116	19,624
<b>Total</b>	<b>20,207</b>	<b>43,692</b>	<b>54,117</b>	<b>19,624</b>

Source: IFRS compliant financial statements

Debts to suppliers of other services

- RON thousand -

<b>Company</b>	<b>31 December 2004</b>	<b>31 December 2005</b>	<b>31 December 2006</b>	<b>30 June 2007</b>
BAT Medias	-	-	126	45
<b>Total</b>	<b>-</b>	<b>-</b>	<b>126</b>	<b>45</b>

Source: IFRS compliant financial statements

*Risk Management****Credit risk***

Financial assets, which may expose the Issuer to credit risk, consist principally of trade receivables. The Issuer has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of receivables, net of bad debt provision, represents the maximum amount exposed to credit risk. The Issuer's credit risk is concentrated in its top 5 clients, which together amount to 85% of trade receivable balance at 31 December 2006 (31 December 2005: 86%, 31 December 2004: 91%). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Issuer beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

***Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities.

***Interest rate risk***

The Issuer is exposed to interest rate risk through its interest-bearing short and long-term borrowings, the majority of which are at variable rates. The Issuer has not entered into any arrangements to mitigate this risk. The Issuer has no significant interest-bearing assets.

***Currency risk***

The Issuer incurs substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

The Issuer does not have formal arrangements to mitigate currency risks of its operations; consequently, the Issuer does not apply hedging accounting. However, management believes that the Issuer is largely secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

***Fair value estimation***

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Issuer for similar financial instruments.

## 10. Information Regarding Trends

According to the methodology for setting the tariffs for natural gas transport services (ANRGN decision no. 1078/18.12.2003 as subsequently modified, including by ANRGN Decision no. 311/2005), the second 5-year regulatory period begins on 1 July 2007.

Due to the extension of the negotiations between the Regulatory Authority and market operators (besides Transgaz storage operators and natural gas suppliers are involved in the process), after 1 July 2007, according to ANRE Order no. 10/18 June 2007, the validity of the tariffs for the period 1 July 2006 – 30 June 2007 were extended for the period 1 July 2007 – 30 June 2008.

According to ANRE Order no. 33/2007, published in the Official Gazette no. 659/26 September 2007 the value of the total allowed income was approved at RON 955,281 thousand for the first year of the second regulatory period (1 July 2007 - 30 June 2008), the new tariffs set based on this total income become applicable starting 1 October 2007.

The table below presents the key parameters for the second regulation period based on the information provided by the Issuer and on the Regulatory Authority orders no. 31/2007, 32/2007, 33/2007, published in the Official Gazette no. 659/26<sup>th</sup> September 2007.:

<i>RON thousand</i>	<b>1 July 2007 – 30 June 2012</b> (unaudited)
Operating costs for the first year of the regulatory period (1 July 2007 – 30 June 2008)	627,174
RoR of the first regulatory period	7.88%
RAB at the beginning of the regulatory period (including working capital)	1,860,269
Cumulated efficiency rate for the entire regulatory period (excepting the technological consumptions costs)	8.00%
The annual rate for technological consumption loses	2.5%
Pass through costs (for the first year of the regulatory period 1 July 2007 – 30 June 2008)	117,466

Total income is determined as the aggregate of regulated income and pass through costs. In its turn, regulated income is computed as the aggregate of operating expenses estimated for this period (RON 627,174 thousand) and the multiplication of the regulated rate of return accepted by

the Regulatory Authority (7.88%) and the regulated asset base accepted by the Regulatory Authority (RON 1,860,269 thousand) by the regulated depreciation accepted by the Regulatory Authority.

In order to calculate the transport tariffs, the following entry data were considered: total income for the period, distribution of costs in fixed and variable according to the Issuer's statements, estimates regarding the transport capacity: 3,080,748 thousand cm/h for confirmed services and 356,446 thousand cm/h for unconfirmed services, while the estimated volume of transported natural gas is of 16,969.316 million cm.

The following table presents the tariffs applicable to NTS users starting 1 October 2007, as compared to tariffs applied before this date:

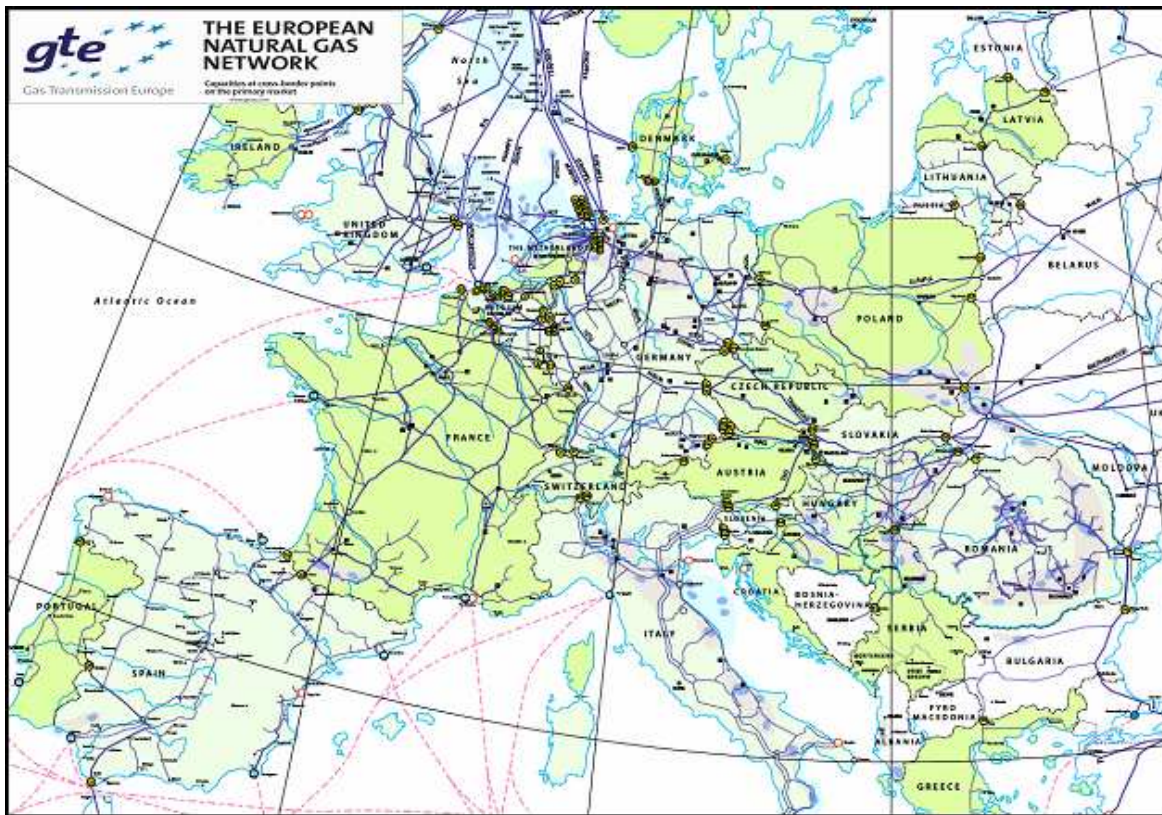
	Measurement Unit	1 July 2006 – 30 June 2007	1 July 2007 (1 October) – 30 June 2008
Confirmed services reservation component	RON/1000 cm/h	9.67	10.97
Unconfirmed services reservation component	RON /1000 cm/h	9.14	9.14
Volumetric component	RON /1000 cm	25.35	37.28

## VII. NATURAL GAS MARKET

### 1. Natural gas regional market

Romania, as member of the European Union, actively participates in the effort to build a unique energy market. The documents of the European Council and European Commission show that the diversification of primary energy sources is a strategic priority for the European Union, considering the forecasted dependence of the European Union on outside sources in 2030, of 70%.

#### Map of natural gas transport network in Europe.

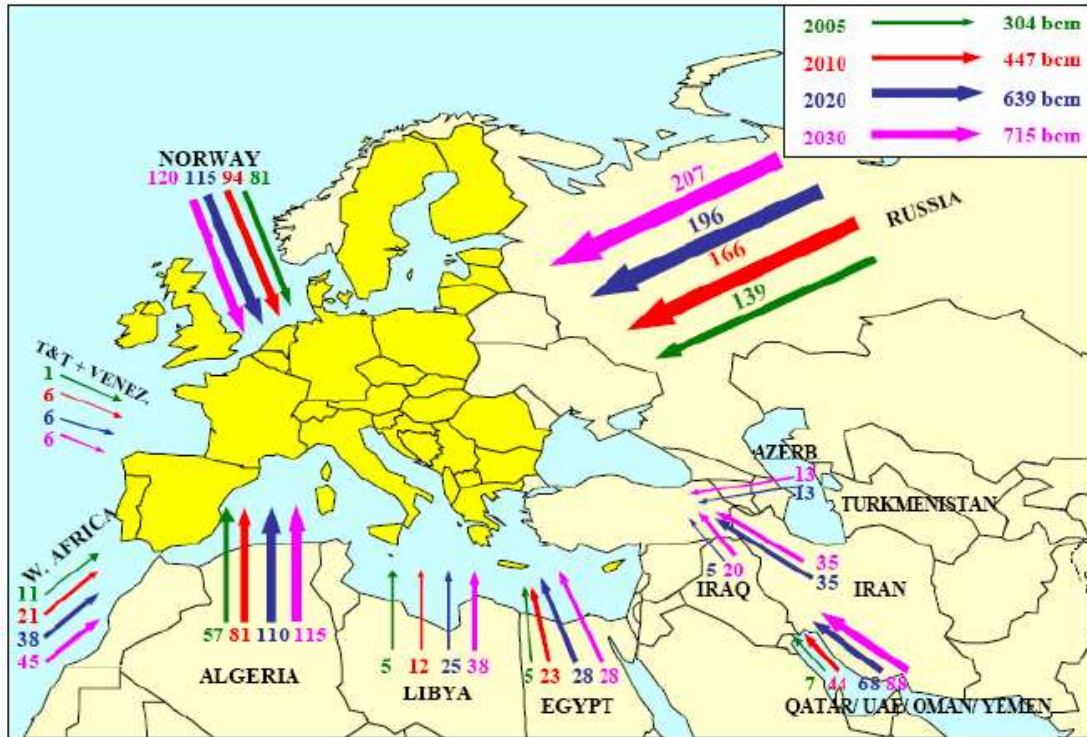


Source: Secretariat of South-Eastern Europe Energy Community

As we can notice from the image presented below, the main gas supply sources of the European Union are the Russian Federation, North African countries and Norway. Smaller quantities are imported from West Africa and Venezuela.

As we can notice from the map presented below, gas imports are to double from 304 billion cm in 2005 to 715 billion cm in 2030. This consumption increase is to be secured mainly from increasing the volumes imported from North Africa, the Russian Federation, Central Asia, Middle East and Norway. Russia is to become the main gas supplier for Europe, with a quota of approximately 30% of total imported volumes by 2030.

### Gas export potential of the main producers to the European Union, Switzerland and Balkan countries



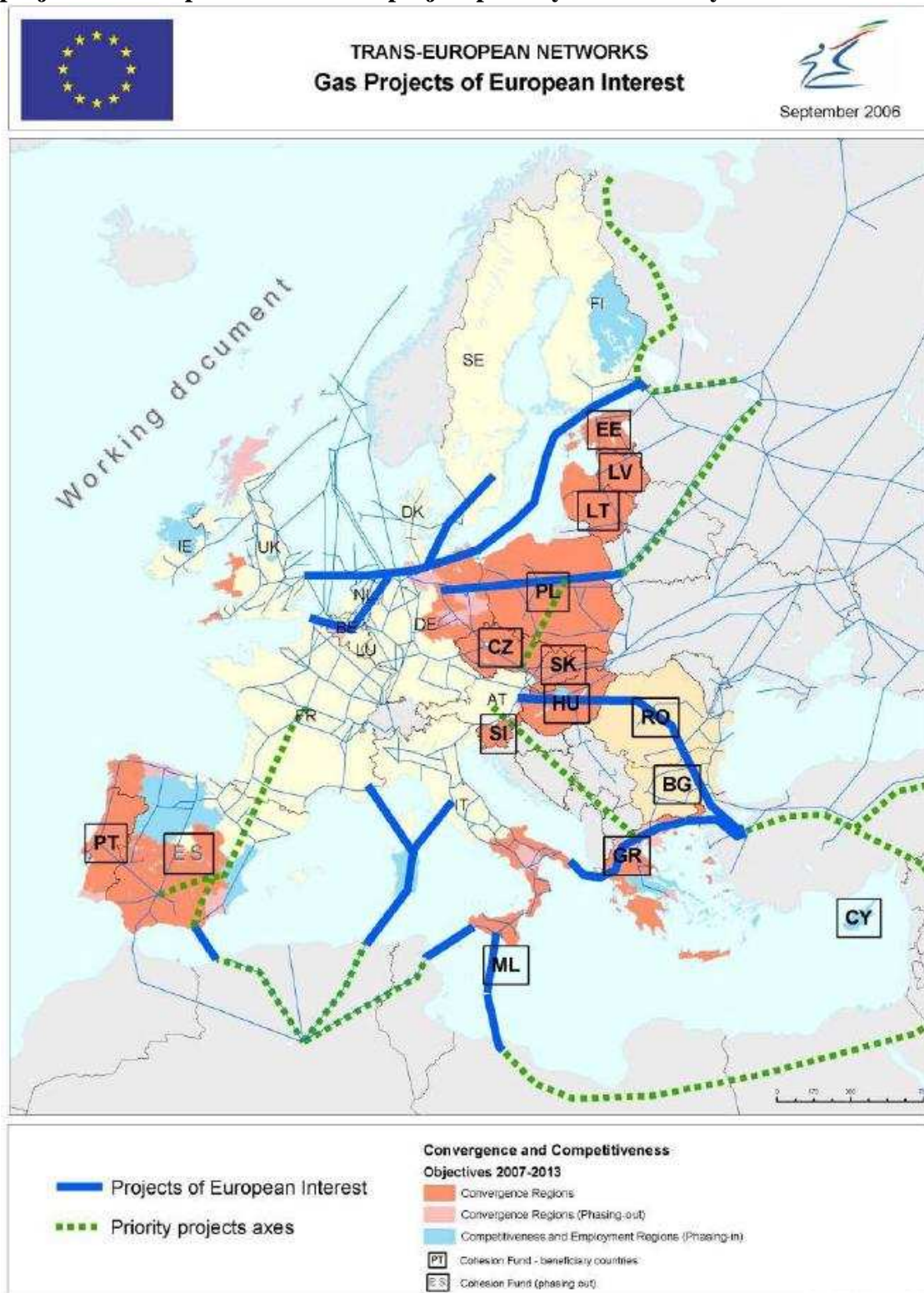
Source: Report of TREN-E – European Commission DG TREN

[http://ec.europa.eu/ten/energy/documentation/doc/2007\\_03\\_30\\_ten\\_e\\_infoday\\_presentation\\_en.pdf](http://ec.europa.eu/ten/energy/documentation/doc/2007_03_30_ten_e_infoday_presentation_en.pdf)

In order to bring these reserves to the consumption place safely and at competitive prices, as well as in order to diversify the supply sources, the transport infrastructure must be developed thoroughly. The image below presents the priority projects decided by the European Commission and European Council in 2004 (when Romania was not member of the European Union, but only in the process of accession).

As we can notice, projects are grouped in terms of priority axes. One of the most important projects in the Nabucco project, for which the European Council decided to appoint a European Coordinator, naming this project among the 6 priority projects in the field of trans-European energy networks. The route of this project points out once more Transgaz role as the company operating the most developed transport system in the area, being the operator of the largest natural gas market in the region.

Gas projects of European interest and project priority axes for the years 2007-2015



Source: TREN-Report – European Commission DG TREN,  
[http://ec.europa.eu/ten/energy/documentation/doc/2007\\_03\\_30\\_ten\\_e\\_infoday\\_presentation\\_en.pdf](http://ec.europa.eu/ten/energy/documentation/doc/2007_03_30_ten_e_infoday_presentation_en.pdf)



On a regional level, Romania is member of the Energy Community of South East Europe (ECSEE), a political initiative the purpose of which is to replicate the requirements of the European Union acquis communautaire in the area. The most important document is the “Energy Community Treaty” signed at Athens on 25 October 2005 and entered into force on 01 July 2006.

The participants to this initiative are: Austria, Greece, Hungary, Italy, Slovenia, Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Former Yugoslavian Republic of Macedonia, Romania, Serbia, Montenegro, Turkey, United Nation Interim Administration Mission in Kosovo. The Republic of Moldova was appointed observer.

The reform plan in the natural gas field was adopted in the Memorandum of Athens in 2003. The main commitments in the field are:

- to create an integrated regional market for the electricity and natural gas networks and the integration of such a market in the community internal market;
- to establish common rules for the transport, distribution, supply and storage of natural gas;
- to form national authorities in the energy field, regulators, transport operators;
- to decide action plans compatible at countries’ level in the field of electricity and natural gas;
- to set up embryonic mechanisms for solving disputes;
- to open the markets according to EU commitments, but with a convenient transition period (all the non-residential markets to be opened until 2015);
- to separate the activities in vertically integrated utilities companies;
- transparent authorization procedures for the new infrastructure;
- an anti-corruption programme;
- to implement network codes and other technical and commercial codes necessary for market functioning;
- regulated third parties’ access to the network, tariff systems encouraging trade and the necessary technical codes for the functioning of a regional system based on trade.

In general, the countries in the region are divided in two types due to the absence of natural gas in Western Balkans, countries with mature natural gas markets and countries with developing gas markets. As a consequence, the actions of these groups of countries will be different at the beginning. Still, there are two inter-correlated long term objectives:

- securing an alternative supply route through Turkey;
- extend the natural gas market in South-East Europe, mainly in the Western Balkans, where there are no gas pipelines at present.

ECSEE benefits from the help of the following donors that meet at least twice a year for coordination purposes: European Commission, EBRD, World Bank, BEI, USAID, CIDA, International Energy Agency, Italy, France, Germany, Switzerland, Czech Republic, Greece. Great Britain is associated through EBRD.

The Stability Pact is a sponsor of the Athens process, as well as a member of the Coordination Group for Infrastructure and of the donors’/financers’ group.

The South-East Europe area is eligible for the TEN-E programme of the European Commission – DG TREN that identifies the European priority projects for energy infrastructure. In connection to the Balkans area, the following projects of common interest are considered:

- develop natural gas interconnections between Greece and other Balkan countries and EU, Greece – Italy, Austria – Turkey (via Hungary – Romania – Bulgaria – Greece), Austria – Slovenia – Croatia;
- develop the transport capacity (supply pipelines) between the Caspian countries and the EU;
- increase the underground storage capacity in Italy.

Nabucco project is considered a priority at all decision levels in the European Union and the Energy Community of South East Europe. The image below presents the approved route, as well as a parallel priority axis that would bring natural gas from the Caspian area to Western Balkans:

### Route for supplying gas from the Caspian Sea to Central Europe.



Source: [www.wikipedia.org](http://www.wikipedia.org)

At the same time, the Russian Federation aims to obtain a market share as large as possible on the South-East European market, where consumption increases quickly. At present, natural gas is supplied to the Balkan from Russian Federation using two routes:

- through the pipelines transiting Romania going to Bulgaria, Turkey and Greece
- through the Blue Stream pipeline that starts from Black Sea seaside, crosses the Black Sea and reaches the Northern coast of Turkey.

Another aim of the Russian Federation is to transform the Western Balkans Area, which, at present, develops a natural gas network, into a new customer. For this purpose, it intensifies its

political and economic efforts in order to promote a new pipe route called South Stream. This, financed 50/50 by the Italian group ENI and the Russian group Gazprom, was to cross the Black Sea over 900 km (reaching depths of 2000 m) and to bring natural gas to Bulgaria, where two possible routes might be identified:

- through the countries of former Yugoslavia to Hungary, Slovenia, Austria – route apparently liked by Russia, due to new customers for the Russian natural gas;
- through Italy, according to the agreements already concluded.

At present, not many precise maps of the route intended for the South Stream were published. Several countries, including Greece, Bulgaria and Hungary signed agreements with Russia for participating in this project, but without stating that Nabucco project has a reduced importance. Gazprom and ENI agreed a quantity of 30 billion cubic meters of natural gas to be delivered per year, but the pipeline size will be determined after the elaboration of a feasibility study.

## 2. Local natural gas market

### Legal framework of the natural gas market

During the last years, the Romanian natural gas market has undergone significant transformation due to the sector reorganisation and restructuring and the development of the regulatory framework following the sector's dynamics and implementation of the community's regulations in the national legislation.

The restructuring of the natural gas sector was also sustained by the evolution of the duties of public authorities, aimed at adapting to the new structures of the natural gas sector, as well as to the new forms of collaboration with European structures.

#### *Structure of the Romanian natural gas market*

According to Gas Law no. 351/2004 and the Government Decision no. 638/2007, the natural gas market was fully liberalised, with the aim of creating a real competitive environment, giving the consumers the possibility to choose their natural gas supplier, as well as for increasing the investments in the sector. New regulations must be implemented in the following period in order to obtain the full liberalisation of the natural gas market.

The principles underlying the functioning of the natural gas market consider:

- to promote and assure the competition on the natural gas market,
- full liberty of eligible consumers to choose their natural gas supplier, based on negotiated sale-purchase agreements for natural gas
- free access of the participants to the natural gas market to natural gas transport, underground storage and distribution systems
- obligation to assure the transport public service, underground storage and distribution of natural gas
- undiscriminating treatment for the participants to the natural gas market

The implementation of full liberalisation of the natural gas market at this moment needs legal clarifications concerning the regulated segment prior to deciding the full opening of the market,

namely the segment corresponding to captive consumers category, and depends on their exercise of the right to choose their supplier.

Until the introduction of the necessary notions and mechanisms into legal regulations, according to Gas Law no. 351/2004, the natural gas market continues to be formed of two segments, namely the competition segment and the regulated segment.

The competition segment of the market refers to the trading of natural gas between suppliers and eligible consumers. In the competitive segment prices are formed freely, based on demand and supply and on competition mechanisms.

The regulated segment of the market consists in natural gas supply at a regulated price and based on framework contracts to consumers and natural and/or legal monopoly activities, based on regulated tariffs: administration of commercial contracts and the contractual balancing of the domestic market, natural gas transport, underground storage, distribution, transit, except for the transit carried out through dedicated major pipelines. For this segment of the market, the tariff and prices systems are set by the Regulatory Authority based on the methodologies elaborated for this purpose.

#### *Competent authorities in the natural gas field*

At present, following the recent unification of the main regulatory authorities in the field of electric power and natural gas, the regulatory authority in the field of natural gas is the National Regulatory Authority in the Field of Energy (ANRE), an autonomous public institution coordinated by the Prime Minister. ANRE elaborates, applies and monitors the compliance with the mandatory regulations at the national level, needed for the functioning of the natural gas sector and market in an efficient, safe, competitive, transparent, undiscriminating manner, protecting the consumers and the environment.

The main duties of the Regulatory Authority in the natural gas sector are:

- to elaborate, approve and apply the regulations for the organisation and functioning of the natural gas market in order to assure the continuity and safety of natural gas supply to consumers
- to assure the full liberalisation of the natural gas domestic market
- to elaborate, approve and apply the criteria and methods for approving the prices and for setting the regulated tariffs in the natural gas sector
- to establish the validity terms of the licenses specific to the sector, as well as how these are granted
- to elaborate and approve the framework agreements in the natural gas sector
- to monitor the natural gas domestic market, to comply with the regulations regarding the organization and functioning of the natural gas market.

The Government, the Ministry of Economy and Finance and the other specialised institutions of the central public administration take measures in order to achieve the objectives included in the governing plan elaborated based on the Policy in the natural gas field and examine the status of the compliance. The Ministry of Economy and Finance elaborates the policy in the natural gas field and assures that it is complied with accordingly.

*Participants to the natural gas market*

The participants to the natural gas market are the following:

- natural gas producers – entities holding an oil agreement and supply license, the specific of which is the production of natural gas for selling purposes;
- natural gas suppliers – entities holding a supply license for natural gas that carry out trading activities of selling-buying natural gas based on the supply contracts;
- natural gas transporter (NTS operator) – entity holding the transport license for natural gas, as well as the concession of the natural gas transport service and the related public property items, that carries out the transport of the natural gas through the NTS (activity considered public service of national interest). The operator of the national transport system for natural gas is the Issuer;
- natural gas distributors – entities holding licenses for natural gas distribution, as well as the concession of the natural gas distribution service, that carry out the natural gas transport through a distribution system with pressures of up to 6 bars inclusively, in one or more limited areas;
- natural gas underground storage operators – entities holding the storage license, as well as the concession agreement for the natural gas storage service and the related items, as the case may be, that carry out all the activities and operations for or in connection with the reservation of storage capacity in the underground storages and for the injection, deposit and extraction from these capacities of certain quantities of natural gas;
- eligible consumers – consumers that can choose their suppliers and that have access to the system;
- captive consumers – consumers that, due to regulatory reasons, cannot choose their supplier. Considering the full openness of the natural gas market starting 1<sup>st</sup> July 2007, which gives all consumers the possibility to choose their supplier freely starting with this date, the notion of “captive consumers” will have to be redefined considering the new market conditions.

*Authorisations, licenses and concessions in the field of natural gas*

In order to set up, function and/or change some production, transport, storage, transit and distribution capacities of natural gas, as well as for carrying out supply, transport, storage, transit and distribution activities in the natural gas sector, Romanian or foreign entities must hold authorizations and/or licenses issued by the Regulatory Authority based on specific regulations.

With respect to the goods publicly held related to natural gas transport and storage objectives/ systems, as well as the transport, storage and distribution of natural gas, these are subject to concession to Romanian or foreign entities.

Details regarding the goods related to the NTS are included in Chapter XII – Property, Plant and Equipment.

*Prices and tariffs in the field of natural gas*

In the natural gas sector the following two price categories apply, connected to each segment of the natural gas domestic market:

- regulated – determined by the Regulatory Authority based on its own methodologies elaborated for this purpose for the supply to consumers that do not exercise their right to choose the supplier, based on framework contracts, corresponding to a regulated segment de facto, which continues to exist as the consumers do not exercise this right although the natural gas market is fully opened, according to the legal provisions in force;
- negotiated, which form freely based on the demand and offer, as a result of competition mechanisms related to the competition segment, comprising the trading of natural gas between suppliers and eligible consumers.

The tariffs related to the services carried out in the natural gas field, as natural monopoly, are regulated by the Regulatory Authority based on its own methodologies elaborated for this purpose and comprise the natural gas transport, distribution and underground storage activities.

The regulated prices and tariffs in the natural gas sector are approved by the order of the president of the Regulatory Authority and are published in Romania's Official Gazette.

The prices for natural gas, as well as the tariffs for the services carried out must be conceived so as to help:

- to obtain a value as close as possible to the market value of alternative fuels, promote the competition on the natural gas market, diversify the sources supplying natural gas and increase the safety of supply;
- recover the costs borne with prudence in connection to regulated activities and subsequent activities, assure a reasonable return on revenue for the capital invested in regulated activities, stimulate the development of natural gas production, transport, storage and distribution capacities, attract foreign investments and technology transfer;
- save power at the end consumers;
- discover new resources and develop natural gas reserves;
- improve the quality of natural gas and service provided to consumers.

The principles that form the basis of elaborating the regulations regarding price and tariff systems for regulated activities are the following:

- stimulate the efficient use of natural gas, assure the service quality, assure the calorific power of natural gas, promote competition on the natural gas market and protect consumers' interests;
- eliminate cross subsidies and/or unjustified difference between the types of consumers or the manner in which natural gas is used;
- prevent speculations and speculative behaviours on the natural gas market;
- encourage the shift of demand during peak consumption period to reduced consumption periods.

*Development of the natural gas market – future perspectives according to Energy Strategy of Romania for the period 2007-2020 (Final document, 4<sup>th</sup> September 2007)*

The market model proposed to be developed according to the Energy Strategy of Romania for the period 2007-2020 contains the following relevant issues regarding natural gas transport:

- Transgaz, as transport operator, is to be financially neutral regarding the costs for balancing the NTS;
- NTS will be operated based on a concept of daily residual balancing in order to assure the safe operation of the system;
- the market operation activity, currently focused on monitoring the mixture import/total consumption, will be strictly maintained until eliminating the differences between the prices of imported gas and the ones produced locally;
- the imbalance fees applicable to network users will generally reflect the costs of imbalances' consequences;
- wholesale prices may vary during the entire year, according to the marginal cost and other fundamental aspects of the market;
- wholesale prices will not be regulated and will reflect both long term contracts, as well as the market value of flexible short term supplies.

The development of the gas market in the following years considers the following:

- develop competition between gas suppliers;
- continue the implementation of 'cap' tariff methodologies;
- stimulate the formation and/or rehabilitation of some natural gas ores in order to increase the natural gas produced domestically and limit the dependence on imports;
- license new suppliers that carry out transactions on the wholesale market, in order to diversify import sources.

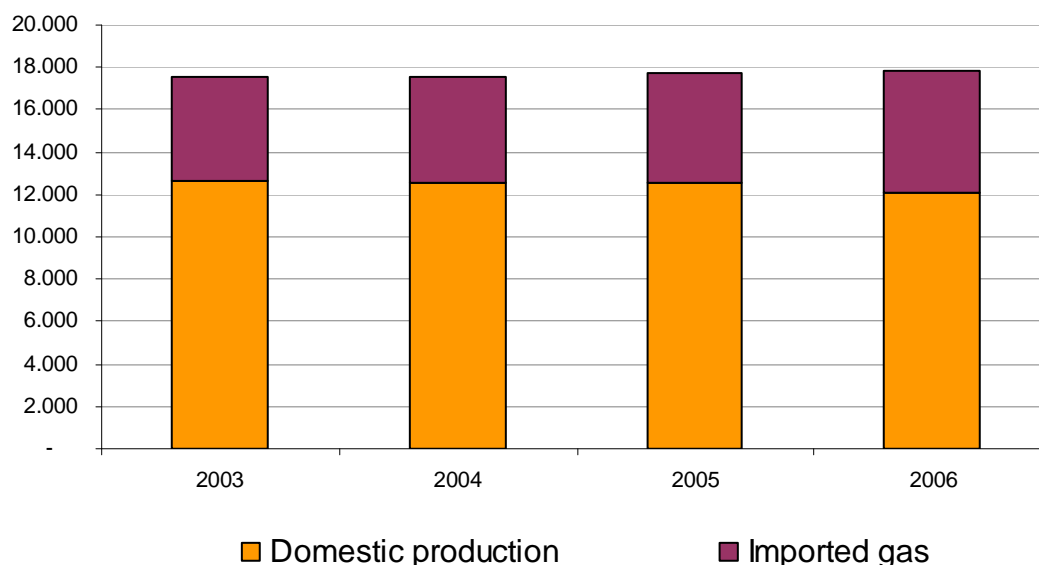
At the same time, according to the Energy Strategy of Romania for the period 2007 – 2020, the intention is to continue the process of aligning the natural gas price at producers to levels comparable to the import price through the gradual increase of the price of domestic production so that, depending on the evolution of price for imported gas and the financial capacity of the consumers in Romania, the price convergence be obtained as soon as possible - based on a realistic calendar, in compliance with the community's regulations regarding subsidies and state aids. The alignment of the prices will be achieved gradually, taking into account the increase in population's purchasing power and the general impact of the prices of natural gas on the national economy, on the prices of other utilities and on macroeconomic indicators. Likewise, in accordance with the requirements unifying local legal framework to the legislation, the community procedures and the general specific economic framework of European Union, a major objective is setting the final prices for natural gas supply to consumers which do not exercise their eligibility, in conditions of economic efficiency, respectively of recovery of the costs resulted from the activities of production, storage, transport, distribution and supply.

### ***Romanian natural gas market - overview***

#### ***Size of gas market***

In 2005, out of the total consumption of 17.7 billion cm, the domestic natural gas production represented approximately 12.5 billion cm, and the difference was imported from the Russian Federation. The entire quantity of natural gas, produced internally and imported, was directed to the domestic market. At the end of 2005, the total number of consumers was of 2.41 million.

### History of the volumes of domestically produced and imported natural gas during the period 2003 – 2006.



<i>mn. cubic meters</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Domestic production	12,636	12,504	12,575	12,062
Imported gas	4,940	5,041	5,169	5,778

Source: Romanian Energy Strategy for the period 2007-2020 (final document, 4<sup>th</sup> September 2007)

The analysis of the above data emphasises certain important aspects:

- changes in outside temperatures and the summer duration each year make variations' trend inconsistent – consumption for heating purposes still has a significant weight;
- domestically produced gas drops constantly and its weight into total domestic consumption keeps on reducing;
- the domestic consumption dropped because of economy restructuring, increase of energetic efficiency and grounding of fuel prices on economic bases transmitting more correct messages to users regarding the weight of primary energy into their production prices or the price of gigacalorie used for heating.

#### ***Players on the gas market***

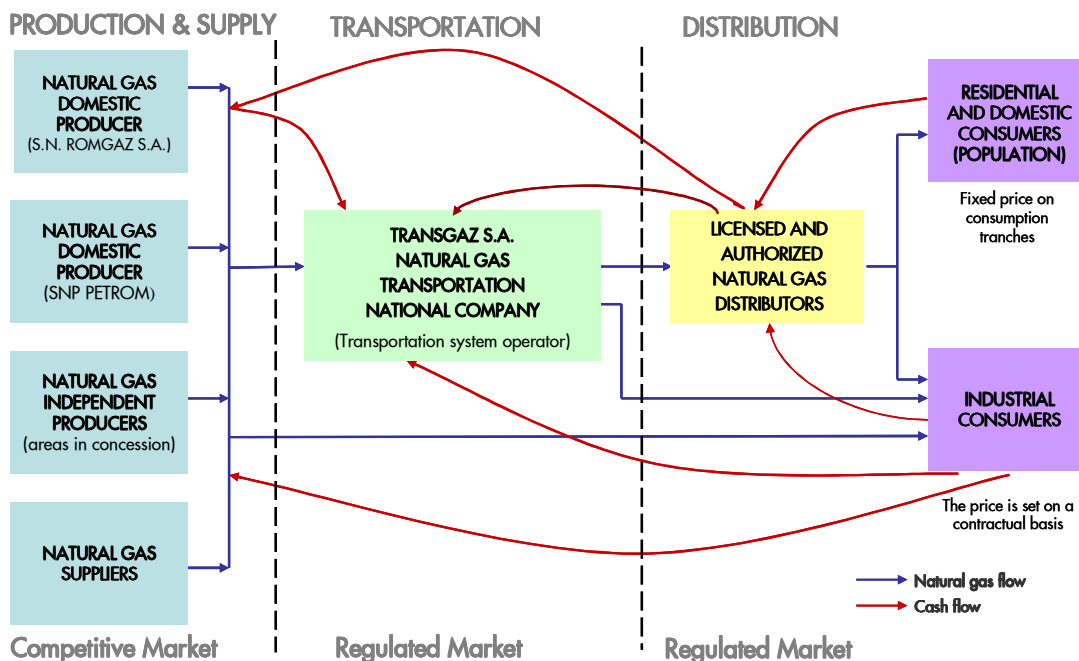
The Romanian natural gas sector is complex, including the following companies:

- Producers such as: S.N.G.N. Romgaz, Petrom S.A., Amromco Energy, L.LC. New York
- Operators of the storage systems: S.N.G.N. Romgaz, Depomures S.A., Amgaz S.A.
- Transporter and operator of the transit system: Transgaz
- Distributors: Distrigaz Sud S.A., E.ON Gaz Romania S.A., Petrom S.A., Congaz S.A. etc.



- Suppliers: Distrigaz Sud S.A., E.ON Gaz Romania S.A., Transgaz S.A., Petrom S.A., S.N.G.N. Romgaz S.A., Congaz S.A., Amromco Energy, L.L.C. New York, Depomures S.A. etc.
- Eligible consumers: 329 (as of 1 January 2006)
- Importers: Distrigaz Sud S.A., E.ON Gaz Romania S.A., Termoelectrica SA, Wirom SA, etc.

### Scheme of the Romanian natural gas market:



Source: Managements Accounts

According to the Activity Report issued by the Regulatory Authority for 2005, 4 producers, 1 transport, dispatch and transit operator, 3 underground storage operators, 52 suppliers, 28 distributors were active on the natural gas market.

According to the web site [www.anrgn.ro](http://www.anrgn.ro), as of 14.06.2006, the following were granted:

- 169 authorizations for setting up distribution networks;
- 715 functioning authorizations for distribution networks;
- 10 functioning authorizations for technical installations in connection to natural gas storage (for 3 economic agents);
- 73 licences for the supply of natural gas on the wholesale market;
- 35 licences for suppliers obliged to supply natural gas to captive consumers;
- 1 licence for natural gas transport;
- 3 licences for natural gas storage;
- 1 licence for natural gas dispatch;
- 1,907 licences for natural gas distribution, for 71 operators;
- 1 licence for natural gas transit.

### *Evolution of gas market*

In 2001, the Regulatory Authority started the reform of the prices and tariffs system in the natural gas sector, considering the liberalisation of the domestic market, the elimination of crossed subsidies between various categories of consumers and the implementation of a new system reflecting the effective costs of natural gas supply, stimulating the investments in the sector.

- *The first stage* in reforming the prices and tariffs system in the natural gas sector consisted in the implementing the regulation of the prices applicable to natural gas captive consumers:
  - elaborate the guide for the implementation of the general framework provided by the law for establishing the prices and tariffs in the natural gas sector;
  - implement the ‘service value’ method as basic principle for the calculation of tariffs for system services - transport, storage, distribution;

At the same time, the system of different tariffs for transport, storage and distribution services, depending on the origin of the natural gas (domestic – import) was eliminated and a single tariff system at a national level was implemented. Subsequently, this allowed a single price for all the consumers.

- *The second stage* consisted in differentiating the prices and tariffs depending on the technical solutions for supply to consumers, directly from the NTS or from classical distribution systems. In order to decide the regulated prices and tariffs, a ‘cost-plus’ methodology was used. At the same time, the ‘mail stamp’ fix amount was no longer included in the structure of the regulated price for covering the storage costs, while different tariffs for each underground deposit were set, allowing third parties to access the storages and to acquire natural gas from underground warehouses.
- *During the third stage* of the implementation of the prices and tariffs systems, the Regulatory Authority aimed at differentiating the distribution tariffs for the supply of captive consumers served through the distribution systems. The differentiation was made by categories of consumers, defined depending on the annual consumption, maximum installed debit and the consumer characteristic of each category. At the same time, the tariffs are differentiated depending on the covered distribution area and the operator of the distribution system. In the future, for this stage, the tariff for transport services will remain the same for the entire country, namely the “mail stamp” type. At the same time, the methods for calculating the regulated prices and tariffs were changed: for underground storage and natural gas transport the “revenue-cap” methodology was implemented, while for regulated distribution and supply, a “price-cap” methodology was implemented.
- *The fourth stage* of the implementation of the prices and tariff system aims at differentiating the transport tariff depending on distance, reserved capacities and transported volumes of natural gas, namely the «in - out» type.

In May 2006, by the common Order no. 102136/530/97 issued by MEC/ANRGN/ANRM, with the purpose of turning into account the quantities of natural gas on the domestic market and containing measures for strengthening the discipline in the natural gas sector, several legal regulations previously issued were revised and cancelled. Thus:

- until the full liberalisation of the domestic natural gas market and the achievement of the convergence of the price of domestic production with the price of imported natural gas, in

order to assure an undiscriminating access of all the consumers to the domestic sources of natural gas, the supply of natural gas to the consumer is made in a mixed manner, consisting in quantities of current/stored domestic production, new gas and imported gas (current/stored);

- the structure of the natural gas mixture is decided monthly by the Market Operator organised within the Natural Gas National Dispatcher within Transgaz, considering the complete and balanced coverage of the demand on the internal market. The Market Operator is obliged to supervise the compliance with the structure of the natural gas mixture approved according to the provisions of the mentioned order by all the licensed operators and eligible consumers in the natural gas sector;
- the structure of the natural gas mixture is posted on the internet page of the Regulatory Authority;
- the weight of natural gas quantities of current domestic production, of new and imported gas in the natural gas mixture will be the same for all the consumers;
- for captive consumers, the obligation of complying with the structure of the natural gas mixture belongs to the supplier carrying out the regulated supply activity;
- for eligible consumers, the obligation of complying with the structure of the natural gas mixture belongs to the supplier, if the latter assures the entire gas needs of the consumer, and of the eligible consumer, respectively, in case it covers its needs from more suppliers.

The real market openness degree is given by the weight in total consumption of eligible consumers that changed supplier or renegotiated the contractual terms with the same supplier. According to the statistics of the Regulatory Authority, the real retail market openness degree was as follows: January 2007 – 52.8%, February 2007 – 51.66%, March 2007 – 52.48%, April 2007 – 53.4%, May 2007 – 54.37%, June 2007 – 55.51%, July 2007 – 56.69%.

As long as the production of internal sources does not cover the national consumption and the imported gas is more expensive than the one produced domestically, it is difficult to identify a real competition in the production sector. A merit order of the sources is built, but more for technical dispatch purposes, considering debits and pressures and not the cost/price of produced gas.

In exchange, the competition regarding the supply is more serious and might grow considering the implementation of the requirements contained in Gas Law no. 351/2004 and the Directive 2003/55/EEC regarding legal, functional, organisational and accounting separation between distribution and supply activities for vertically integrated companies. This counterbalances the possible competitive advantage of the companies that hold the natural monopoly of the public distribution service in a territory subject to a concession agreement.

Starting 1<sup>st</sup> August 2001, the initial openness degree of the domestic natural gas market was decided, representing 10% of the total consumption registered in 2000. Following this openness and according to the regulation certifying eligible consumers, the centralised list of eligible consumers was approved. The list, containing 17 economic agents, was published in the Romania's Official Gazette.

For 2002, the openness degree of the domestic natural gas market was set at 25%. 41 economic agents were certified for a consumption of 3.375 billion cm, corresponding to an effective market openness degree of 21.29%.

For 2003, the openness degree of the domestic natural gas market was set at 30%. 54 economic agents were certified for a consumption of 4.8 billion cm, corresponding to an effective market openness degree of 30%.

For 2004, the openness degree of the domestic natural gas market was set at 40%. The effective market openness degree was of 38.97%, while the number of eligible consumers increased to 75.

For 2005, the openness degree of the domestic natural gas market was set at 50%, within the limit of a natural gas quantity of 9.150 billion cm. To the 75 eligible consumers existing in 2004, re-certified according to the changes to the certification regulations, another new 27 eligible consumers were added. Following the certification session carried out in June 2005, the total number of eligible consumers reached 130, with an eligibility limit decided based on a necessary minimum consumption history reduced from 3 million cm/year to 1.24 million cm/year.

For 2006, the openness degree of the domestic natural gas market was set at 65% of total domestic consumption. This was possible considering that the representatives of the civil society, as well as of consumers, considered it was appropriate to accelerate the process of opening the natural gas market. Subsequently, due to the progress registered, it was decided that, starting 1<sup>st</sup> July 2006, the market openness degree will be of 75%. For 2006, 102 consumers were certified, while the effective market openness degree was of 52.61%.

#### ***Transgaz's role on the natural gas market, NTS operation, dispatch***

According to the Government Decision 334/2000, the main object of activity of Transgaz is the transport, dispatch, international transit of natural gas, research and design in the field of natural gas transport, assuring the undiscriminating access to the NTS for each economic agent.

Transgaz is the technical operator of the NTS and is responsible of its functioning in terms of quality, safety, economic efficiency and environmental protection.

Transgaz role on the Romanian energy market in general and on the gas market in particular is very important, considering that the natural gas transport activity assures the necessary connections between producers and suppliers on one side, and between distributors and consumers on the other side. Transgaz operates a natural monopoly, the NTS, being the only holder of a transport license and concession agreement regarding the NTS-related assets and the public natural gas transport in Romania. Under these circumstances, there is no competition on the transport market, the transport activity being regulated with the aim to recover operating costs and any investments made to maintain and develop the NTS at European standards.

The evolution of the natural gas transported through the NTS during the period 2003-2006 is presented in the table below:

#### **Evolution of the natural gas transported in the NTS during the period 2003-2006**

Billion cubic meters	2003	2004	2005	2006
Total natural gas transport services through the NTS, out	16.1	15.7	16.4	15.2
of which:				
- Romgaz and other internal producers	6.7	6.2	6.8	7.0
- Petrom	4.0	4.4	4.3	3.1
- Import	5.4	5.1	5.3	5.1

Source: Transgaz, Management Reports

According to the estimates of the Regulatory Authority, published in Romania's Energy Strategy 2007-2020, the internal production and the quantity of imported gas will be:

### Forecast regarding domestic production and natural gas imports during the period 2007-2015

Billion cubic meters	2007	2008	2009	2010	2011	2012	2013	2014	2015
Import	6.1	6.6	7	7.2	7.5	7.8	8	8.3	8.5
Domestic production	11.7	11.3	11	10.9	10.8	10.7	10.7	10.6	10.6

Source: Regulatory Authority, Energy Strategy of Romania 2007 – 2020 (final document, 4<sup>th</sup> September 2007)

With regard to the future evolution of natural gas volumes transported through the NTS, according to the “Romania’s Energy Strategy for the period 2007-2020”, the actions to be taken by Romania are:

- Increasing the supply safety as to the mix of energy sources and as to infrastructure reliability.
- choose a balanced energy mixture with focus on using coal, nuclear energy and renewable energetic resources, including the hydro potential that has not been used yet, conferring to the energetic sector a competitive and safe supply;
- efficient management and rational and safe operation of Romania’s primary energetic resources that may deplete and maintain the import of primary energetic resources (limited/controlled dependence) at an acceptable level, on economic grounds;
- Improving the competitive position of local energy and gas markets, correlating these markets with those at the European level, active participation in EU Energy market formation and improving the cross border exchanges, all this by keeping in mind the Romanian consumers and companies’ interest.
- Improving the efficiency over the entire value chain (production, transport, supply and consumption)
- Meeting the investment needs of the energy sector, considering private sources as well
- Meeting the environment protection targets and reducing greenhouse emissions.
- Active participation in the EU efforts for creating an energy strategy for Europe, following and promoting Romanian interests.

In addition to the above, the same documents mentions (at the chapter “Production and energy demand forecast”) that the aim is to limit the weight of the “production of electric power by using liquid and gas fuels. These fuels will be used mainly in cogeneration plants, necessary for providing thermal energy to the population”.

According to the Energy Strategy of Romania 2007 – 2020 (final document, 4<sup>th</sup> of September 2007), natural gas consumption is expected to have a slight increase until 2015. After 2015, the

relation between imports and domestic production will be reversed considering the staged depletion of natural gas domestic reserves.

*Dispatch, building the gas balance and basket*

The Natural Gas Dispatcher, located in Bucharest, is a very important structure within the Issuer. In practice, it acts as gas market operator (commercial operator). Its role is expected to grow once the new Code of the Transport Network enters into force, which is now in draft elaborated by an advisor of the Regulatory Authority, within a Phare project. It is scheduled to enter into force on 1st. January .2008.

At present, the Natural Gas National Dispatcher carries out the following activities:

- Assess the natural gas demand/available quantities on the Romanian market for the reference month; this activity consists in:
  - collecting the data regarding domestic demand/available capacities
  - assessing gas demand in terms of consumer categories
  - assessing the natural gas available from domestic sources – current production and underground storage
  - technical/commercial analysis of the NTS technical availabilities as per the specific contractual terms
- Design the structure of natural gas deliveries for the reference month; this activity consists in:
  - determining the balance deficit for the supply period (demand – available quantities from domestic sources);
  - deciding the structure of the natural gas mixture (domestic, imported);
  - deciding the quotas of domestic and imported gas in the structure of natural gas demand;
  - designing the structure of natural gas deliveries on the market for the reference month;
  - designing the structure/volume of transport/distribution/underground storage services for the reference month;
  - elaborating the Report regarding the structure of natural gas deliveries (subject to the approval of the Regulatory Authority); in general, the report determined in the last months ranges around 70/30 (domestic/import).
- Make official the structure of natural gas supply for the reference month (the Regulatory Authority must approve the proportion domestic/imported gas that has to be complied with by each supplier or eligible consumer with several suppliers for the reference month); this activity consists in:
  - presenting the Report for the analysis and approval of the Regulatory Authority – it analyses and decides the structure of the mixture (gas basket) for the reference month that has to be complied with by each supplier or eligible consumer with several suppliers;

- communicating the structure of the natural gas mixture to all the operators in the natural gas sector;
- checking the updated nominations of producers/suppliers;
- listing the technical and commercial restrictions;
- communicating the structure of deliveries, broken down per supplier/beneficiaries to Transgaz, National Natural Gas Dispatcher, that has the role of NTS operator and determines the hourly/daily technological flows in order to assure the optimum conditions for supplying natural gas to beneficiaries;
- Dispatch/making the supply of natural gas. This activity consists, among others, together with the National Natural Gas Dispatcher Medias, in:
  - Elaborate programs of natural gas deliveries and correlate transport capacities with the sources' potential and levels of requested consumption
  - Decide the hourly/daily/periodical levels of the parameters for taking over imported gas at the border, through SMG Isaccea and SMG Medieșu Aurit
  - Optimise the functioning parameters of the capacities serving the underground storages
  - Activate feed-back mechanisms in order for NTS functional parameters to comply with the limits imposed by the hourly fluctuation of consumption peaks (source activation/deactivation, compressing stations, storage, interconnections)
  - Permanently assure the data/information balance regarding the making of supplies for the dispatched day with:
    - Gazprom/Ukrprom/Bulgargaz/C.B.D Topenergy Dispatchers
    - Romgaz and OMV Petrom Dispatchers
    - Dispatchers of natural gas distribution companies
    - Energetic Dispatchers
    - Central/Local authorities
- Daily monitoring and during the supply period of the natural gas market, aiming both at complying with NTS functioning parameters and the performance standard, as well as the quota domestic/imported (in the gas basket) for each supplier or eligible consumer with several suppliers. This activity consists in:
  - Daily processing of the data regarding the quantitative levels of domestic production, taken over imported natural gas and beneficiaries' consumptions
  - Comparative analysis of the ratio 'scheduled structure/effective structure' of natural gas supplies during the supply period
  - Forecast the hourly/daily/seasonal consumptions by using the statistics and database of DNGN;

- Activate the mechanisms for modelling the structure of supplies and correct the differences between the scheduled structure and the effective structure for the supply period;
- Decide the final structure of natural gas works at the beneficiaries (correcting the amounts paid for the suppliers or eligible consumers that did not comply with the quota decided by the Regulatory Authority for the reference month). This activity consists in:
  - Process the reports of all the operators on the natural gas market
  - Determine the structure of the gas mixture for the month ended
  - Determine the volume of transport services
  - Transmit the balance reports – primary justifying documents necessary to the operators in order to conclude the natural gas reports and for invoicing the traded quantities and the value of the services carried out
  - Report to the Regulatory Authority the national balance of natural gas acquisitions/supplies on the Romanian natural gas market.

The National Natural Gas Dispatcher Medias has increased functions and a more important hierarchical role in NTS dispatching starting September 2007, after the Board of Directors approved the new Ruled of Organisation and Functioning of the Issuer. Its role as technical operator of the NTS consists in carrying out activities such as:

- Scheduling of transport activities:
  - Analysis of dispatchable units and decide the minimum and maximum technical/technological/commercial parameters for each of them;
  - Decide the minimum/maximum capacities for each business unit;
  - Analyse the gas reduction/interruption stages according to contractual terms;
  - Forecast the demand for capacity and transport services on the short, medium and long term;
  - Analyse the natural gas volumes in order to assure the physical balance of the NTS under normal functioning circumstances;
  - Supervise, at the entry and exit point into/from the NTS of the correlations:
    - Reserved capacity – technical capacity;
    - Nominal power/debits – reserved capacity;
    - Measured debits power – reserved capacity;
    - Power/debits delivered to the NTS - Power/debits delivered from the NTS
  - etc.
- NTS analysis:
  - Set the parameters for the optimal functioning of the NTS;



- Elaborate technological conditions in terms of consumption purposes;
- Manage/update the database regarding NTS and related installations technological schemes;
- Comply with the Issuer's obligations derived from the Rules for Measuring Natural Gas on the Wholesale Market (decide the quality areas and weight of the natural gas sources of each area);
- Keep track of damages and accidents in the NTS and the related installations;
- Check, approve and submit for approval the working schedules and maneuver slips for works in the NTS;
- Decide the gas technological consumptions in terms of transport subsystems and regional operations and inform accordingly so as to apply the measures for their reduction;
- Manage the geometrical characteristics of the NTS;
- etc
- NTS Dispatch
  - Operative supervision of measured natural gas and pressures at the entry/exit points into/from the NTS;
  - Supervise the repair of defects and the performance of the works scheduled for the NTS and the related installations;
  - Operative and permanent supervision of the NTS and maintenance of the optimum transport conditions;
  - Assure the continuity of gas supplies to beneficiaries according to the parameters contracted;
  - Issue decisions regarding manoeuvres to the technological installations so as to assure optimum transport conditions;
  - Through regional dispatchers and import:
    - Dispatch the technological installations in its area of activity at the parameters decided according to the technological terms;
    - Keep the relation with gas producers and consumers in its area of activity for maintaining the transport system and the agreed parameters;
    - Carry out manoeuvres in NTS related installations;
    - etc
  - Supervise the compliance of the effective quantities with the nominal ones.

Following the reorganization approved by the General Meeting in July 2007 and by the Board of Directors in August 2007, the National Natural Gas Dispatcher Medias and the Natural Gas Dispatcher Bucharest are part of the Issuer's Operation Department, assuring the performance of the tasks of which Transgaz is in charge as per its own programme regarding the correlation of the transport capacity with the schedule/requested/nominal consumption levels; assures the

compliance with the contractual obligations towards NTS users, along with the provisions of the regulatory framework, elaborated gas balances in terms of systems and subsystems, supervises gas quality, etc.

## VIII. DESCRIPTION OF THE ISSUER'S ACTIVITY

### 1. Legal framework applicable to the main activities carried out by the Issuer

According to the Government Decision 334/2000, the Issuer carries out the following main activities in the natural gas sector:

- natural gas transport;
- natural gas international transit in Romania;
- dispatch of natural gas networks and supply systems;
- supply of natural gas representing the value of the transit services for international transport;
- research and design related to transport activities.

At the same time, the Issuer may carry out, in addition, other related activities sustaining the main object of activity, according to the legislation in force and its bylaws.

The Issuer's main object of activity consists in the natural gas transport, dispatch, international transit, research, design in the field of natural gas transport (CAEN code 6030 – Transport through pipelines).

According to the Articles of Association, the Issuer may carry out a series of secondary activities, presented in detail at Annex 4.

#### a) Natural gas transport activity

The Issuer carries out the natural gas transport that, according to Gas Law no. 351/2004, is the activity organised for circulating natural gas through the NTS.

The Issuer's main rights and obligations as NTS operator, decided according to Gas Law no. 351/2004, are presented at Annex 3.

NTS operation is carried out by the Operation Department, organised in 9 local units: Mediaş, Cluj, Arad, Braşov, Bucureşti, Bacău, Brăila, Constanţa and Craiova. There are 48 sectors included in the local units.

According to the applicable regulatory framework, the Issuer carries out the natural gas transport activity mainly based on the Concession Agreement, the natural gas transport License 43/2001, approved by Regulatory Authority Decision no. 43/2001, modified by Regulatory Authority Decision no. 1362/2006, having a validity period of 15 years since its granting, Regulatory Authority Decision no. 1398/20 September 2007, published in the in the Official Gazette no. 2675/2.10.2007, part IV, concerning utilization of transport system networks and related, having an validity period of 15 years starting with the date when the decision was issued, .

According to Gas Law no. 351/2004, the natural gas transport service, as natural monopoly, is carried out by a single operator for a determined area. According to the Concession Agreement

and the Transport License, the Issuer has the exclusive right to exploit and carry out the natural gas transport activity using the goods conceded for the entire country.

Considering that the natural gas transport activity is a natural monopoly, third parties' access to the transport systems is regulated (including with respect to the tariff paid by the applicant, cases in which access may be denied). The Issuer, as transport operator, has the obligation to allow third parties to access the NTS according to specific regulations, in undiscriminating terms, within the limits of the transport capacities and in compliance with the technological terms.

According to the provisions of Gas Law no. 351/2004, the Issuer, as NTS operator, does not have the right to carry out, directly or indirectly, operations such as the probing, extraction, distribution and supply of natural gas to consumers, including by holding shares or shareholdings or by means of a management agreement involving entities that carry out such activities.

The Issuer stated that it has not been involved, directly or indirectly, in operations such as the probing, extraction, distribution and supply of natural gas to consumers, including by holding shares or shareholdings or by means of a management agreement involving entities that carry out such activities, except for:

- capitalize on the natural gas received as payment for carrying out natural gas transit services (according to the provisions of art. 26 of Gas Law no. 351/2004 and the natural gas supply License);
- the participation in Wirom S.A., representing 0.0249% of the share capital of this company.

According to art. 109, par. 2 of Gas Law no. 351/2004, the non-compliance or the inconsistent compliance with the validity terms for the authorizations/licenses obtained is considered a minor offence and is sanctioned by fine from RON 10,000 to 50,000.

The natural gas transport activity is a public service of national interest and is included in the regulated segment of the domestic natural gas market. The systems of prices and tariffs for this regulated market segment are decided by the Regulatory Authority based on the methodologies elaborated for this purpose, while contracts are usually concluded in compliance with the standard contracts approved by the Regulatory Authority.

The contracts for carrying out the natural gas transport services are concluded for a period of 1 gas year, namely 1 July – 30 June of the following year, based on the Framework Contracts elaborated and approved by the Regulatory Authority.

At present, the following contracts are in force:

- Framework agreement for carrying out natural gas transport service with capacity reservation through the NTS, approved by Decision no. 460/2006, as amended, and
- Framework agreement for carrying out interruptible natural gas transport services through the NTS, approved by the Decision no. 528/2006, as amended.

*Issues regarding the Transport License:*

- The Transport License and the provisions of Gas Law no. 351/2004 stipulate the obligation to separate the transport activity from a legal, functional and organisational point of view starting 1 January 2007. For additional information see

Chapter IX.1 – History and evolution of the Issuer – Important legal events in the evolution of the regulatory framework applicable to natural gas transport and transit.

The non-compliance with the obligation regarding the legal, functional and organisational obligation may trigger the application of the sanctions mentioned in Gas Law no. 351/2004 and the Natural Gas Transport License, ranging from a fine to the withdrawal of the Transport License.

According to the minutes no. 351/27.08.2007 for determining and sanctioning offences, the Regulatory Authority sanctioned the Issuer for not complying with the provisions of art. 100, par. 2 of Gas Law no. 351/2004 regarding the legal, functional and organisational separation of regulated activities until 01 January 2007 by a fine of RON 12,000.

- According to Regulatory Authority opinion, stated in address no. 20255/12.10.2007, on the expiring date of the actual natural gas supply license, this cannot be prolonged for a new period, a new license being necessary. In the same document, the Regulatory Authority considers that once the supply license expires, the Issuer has concluded the legal separation process, if another license will not be issued.
- The profit obtained from natural gas transit activity was used by the Issuer in order to finance the investments related to the NTS.
- According to the Minutes no. 352/27.08.2007 for determining and sanctioning offences, the Regulatory Authority sanctioned the Issuer for not complying with the provision of term 52 of the Transport License, namely transparency obligations according to the European Regulation no. 1775/2005 regulating the access to natural gas transport networks, by a fine amounting to RON 50,000.
- In the absence of specific regulations issued by the Regulatory Authority, the Issuer cannot comply with certain specific terms of the Transport License, namely the storage in underground warehouses some quantities of gas necessary for permanently assuring a balance within the NTS.
- In connection to the obligation included in the Natural Gas Transport License to notify the Regulatory Authority 10 business days prior to changing the legal form, name or object of activity or with respect to changes to the share capital, the Regulatory Authority confirmed to the Issuer, in letter no. 12994/25.07.2007, the fact that, for the shares representing maximum 10% of the Issuer's share capital that are to be traded on the BSE the obligation to notify is considered complied with in terms of the holders of such shares.

The Issuer states that it has complied with the main obligations included in the Natural Gas transport License, except for the issues mentioned above.

Details regarding the Transport License are included at Annex 6.

*Issues regarding the Concession Agreement:*

- Certain legal issues applicable to the natural gas sector, governed by Gas Law no. 351/2004 and Oil Law 238/2004, are not reflected accordingly in the Concession Agreement, considering the subsequent enforcement of these laws. In certain cases, the provisions of the mentioned legal framework are applicable directly and replace

the contractual terms. At the same time, some legal inconsistencies regarding the regulation of the natural gas transport activity impact on the Concession Agreement. This is also the case of the Transport License and its validity terms.

This aspect was notified by the Issuer to ANRM in letter no. 8594/09.07.2007. At the same time, in letter 8595/09.07.2007, the Issuer notified the Ministry of Economy and Finance regarding the existence of inconsistencies between the provisions of Gas Law no. 351/2004 and Oil Law no. 238/2004, requesting clarification regarding the issue of a legal regulation amending the mentioned laws, as well as Law no. 213/1998, concerning the public property and its legal status.

- The minimum investment plan for the period 2007-2011 was agreed together with ANRM and, for this purpose, ANRM and the Issuer signed the Addendum no. 2/2007 to the Concession Agreement.
- The Issuer did not fully comply with the minimum investment programme for the period 2002-2006. In letter no. 10054/10.08.2007, the Issuer communicated to ANRM the reasons for not having made the investments in full, which were analysed by ANRM according to the Report no. 403246/23.08.2007 elaborated by ANRM General Manager and approved by ANRM President.

According to the Report mentioned, the analysis of the information transmitted to ANRM pointed out that 68.59% of the minimum investment plan for the period 2002-2006 was complied with. The reasons for not having complied with the investment obligations include the lack of completion of certain studies related to the projects, the non-performance of some works for the interconnection with similar systems in the neighbouring countries or related to underground storages or distribution systems, considering that the latter were not developed accordingly.

Some of these investment obligations were taken over in the minimum investment plan for the period 2007-2011.

In addition to the above, according to the Report, the reasons for not having completed the minimum investment plan for the period 2002-2006 are accepted and the minimum plan for the period 2007-2011 is accepted.

According to ANRM Report, the non-compliance with the provisions of the Concession Agreement will be sanctioned according to Oil Law no. 238/2004 as it is considered a violation of the obligation to comply with the norms and instructions issued for the enforcement of this law and the Concession Agreement. The express sanction included in Oil Law no. 238/2004 for breaching this obligation is a fine ranging from ROL 300,000,000 to 700,000,000.

As per the Minutes for determining and sanctioning the offences with respect to the performance of oil operations of 5. September .2007, ANRM sanctioned the issuer for not having complied with the investment obligations included in the Concession Agreement – minimum investment plan 2002-2006, namely having breached art. 48, par. 1, letter h) of Oil Law no. 238/2004 by a fine of RON 30,000.

It should be mentioned that, according to Oil Law no. 238/2004 and the Concession Agreement, the non-compliance with the minimum investment plan agreed by

ANRM may lead to sanctions ranging from a fine to the termination of the Concession Agreement.

The Issuer states that it was not communicated the existence of a reason for withdrawing the concession of natural gas transport service by the competent authorities in the field.

- Setting some priorities regarding the contracting of certain materials and equipment from Romania may be considered contradictory to the provisions applicable to public acquisitions, namely the principles included in the Government Emergency Ordinance no. 34/2006 regarding public acquisitions, granting public acquisition contracts, concession agreements for public works and services
- Although the Concession Agreement is approved by Government decision, the Issuer has not obtained the approval of the Regulatory Authority regarding the Concession Agreement.
- Although the object of the Concession Agreement is the concession of major pipelines, installations, equipment and machines related to the NTS and NTS operation, (i) the conceded goods include dedicated major pipelines through which the Issuer carries out the unregulated transit activity and that, according to the principles of Gas Law no. 351/2004, are not included in the NTS, and (ii) while, according to the Concession Agreement, the Issuer has to pay a royalty for the concession of goods and activity subject thereto, the Issuer also pays royalty for natural gas transit through dedicated major pipelines as quota of gross revenues resulted from NTS operation that, as per the Concession Agreement, includes the dedicated major pipelines.
- According to OUG no 101/2007, published in the Official Gazette of Romania no. 684/8.10.2007 which modifies Oil Law no.238/2004, the level of the oil royalty, and respectively of the royalty for the natural gas transportation service, increased from 5% to 10% of the value of the gross revenues obtained from transport and transit operations through the national transport systems. According to the provisions of the Concession Agreement corroborated with the provisions of OUG 101/2007, the royalty of 10% of the value of gross revenues obtained from transport and transit operations through the national transport systems became applicable starting with the enforcement date of the mentioned law, respectively 8 October 2007. At the same time, it is appointed the obligation to renegotiate the oil agreements concluded, in force, in accordance with the provisions of the emergency ordinance. The corresponding modifications and completions for renegotiation will be notified by ANRM and, following the renegotiation an additional agreement will be signed. The finalization term of the renegotiation will be established by ANRM order. ANRM notified the Issuer concerning the changing of royalty fee starting with 8 October 2007, without expressing its intention to modify other terms and conditions in the Concession Agreement.
- According to the Concession Agreement, the tariff for natural gas transport is the one approved by the conceding party (ANRM) according to legal provisions, while, according to the applicable legal provisions, it is decided by the Regulatory Authority according to the methodologies in force.

- The Concession Agreement includes certain exemptions from custom duties that reflect on a contractual level the provisions of Oil Law no. 134/1995 applicable when the Concession Agreement entered into force and annulled at present, these provisions not being currently included in Oil Law no. 238.2004. In the absence of express legal provisions, one may consider that the exemptions from custom duties are no longer applicable as they are not ANRM tasks or specific provisions of a concession or oil agreement.
- As per the Concession Agreement, the party benefiting from the concession has the right to suggest the expropriation of land areas to be included in the NTS, while land thus expropriated are to complete the object of the Concession Agreement although, according to the legal definition in Gas Law no. 351/2004, the NTS does not include land and ANRM is not competent to grant concessions for publicly owned land.
- According to the Concession Agreement, the Issuer agreed to respect the confidentiality of data concerning the NTS, which cannot be disclosed without the prior consent of ANRM. Although the Issuer notified ANRM concerning the information which Transgaz intends to disclose in the Prospectus, it did not receive, until this date, any formal written consent.
- The appendices to the Concession Agreement are classified as “work related classified information” by ANRM. Therefore, information regarding the appendices to the Concession Agreement, including data related to the mandatory investment plan for 2007 – 2011, was not included in the prospectus.

The Issuer states that it has complied with the main obligations of the Concession Agreement, except for the Issues mentioned above.

Details regarding the Concession Agreement are included in Annex 7.

#### *Concerning the operating authorization*

As to the operating authorization for NTS, the Issuer obtained the license no 829 approved by Regulatory Authority’s Decision no. 1398/20 September 2007, the process for obtaining it being started in December 2005.

#### **b) Natural gas transit activity**

According to Gas Law no. 351/2004, the transit activity consists in the transport through the NTS and/or dedicated major pipelines, in Romania, with or without cross border, of the natural gas coming from another country and going to a third country.

According to Gas Law no. 351/2004, the natural gas transit activity carried out through the NTS is regulated, while the natural gas transit activity through dedicated major pipelines is not regulated and is subject to the terms of the international agreements based on which it was carried out. The Issuer carries out natural gas transit exclusively through dedicated transit pipelines as per Gas Law no. 351/2004.

The Issuer, as NTS operator, within the limits of available capacities, will assure third parties access to the NTS in order to transit natural gas coming from one country and going to another country. Third parties access to the NTS is carried out according to the regulations issued by the Regulatory Authority.



Future transit contracts and any capacity allocation as per such contracts will be carried out in compliance with third parties right to access the network according to specific regulations issued by the Regulatory Authority.

The Issuer holds the Natural gas transit license no. 41/17.01.2001 having the validity term corresponding to the agreements and contracts concluded with transit partners. The Issuer carries out the natural gas transit activity through dedicated major pipelines (unregulated activity), according to the transit contracts concluded based on the international agreements to which Romania is part, the object of which is the natural gas transport in Romania.

Considering that the natural gas transit License no. 41/17.01.2001 granted to the Issuer was issued by the Regulatory Authority without any terms detailing the performance by the Issuer of natural gas transit activities, such activities are carried out according to the provisions of Gas law no. 351/2004 and the international agreements on natural gas transit to which Romania is part.

According to Gas Law no. 351/2004, the natural gas transit activity through existing pipelines is carried out by the NTS operator.

The Issuer, as NTS operator, has the right to trade its own quantities of natural gas received as payment for the transit services, according to the Supply License it holds based on the Regulatory Authority's Decision no. 15/13.01.2006.

The Issuer states that it has complied with the main obligations included in the natural gas transit License no. 41/17.01.2001.

**c) Natural gas dispatch activity**

According to Gas Law no. 351/2004, dispatch is the specific activity of permanent and operative correlation and balancing, in terms of systems, of the input and output natural gas according to the parameters resulted from supply obligations, as well as taking the measures for limiting the effects of exceptional cases such as very low temperatures, natural calamities, major damages and other similar ones, by using specific means.

The Issuer carries out the natural gas dispatch activity based on the Natural gas dispatch License no. 561/13.01.2006, approved by the Regulatory Authority's Decision no. 16/2006, having a validity of 15 years starting with the issue date.

Considering that the natural gas dispatch License no. 561/13.01.2006 granted to the Issuer was issued by the Regulatory Authority without any terms detailing the performance by the Issuer of natural gas dispatch activities, such activities are carried out according to the provisions of Gas Law no. 351/2004 as well as other applicable legal provisions.

The Issuer states that it has complied with the main obligations included in the natural gas dispatch License no. 561/13.01.2006. At the same time, the Issuer has complied with its obligations as NTS operator, derived from or included in Gas Law no. 351/2004.

**d) Natural gas supply activity**

According to Gas Law no. 351/2004, the natural gas supply activity is the trading activity of selling-purchasing natural gas, carried out by an entity based on the supply license.

As an exception from the provisions of Gas Law no. 351/2004 regarding the interdiction of the NTS operator to carry out, directly or indirectly, operations like the probing, extraction, distribution and supply of natural gas to consumers, the Issuer has the right to trade its own quantities of natural gas received as payment for the transit services.

The Issuer carries out the natural gas supply activity according to the natural gas supply License no. 560/13.01.2006, approved by the Regulatory Authority's Decision no. 15/13.01.2006, having a validity period of 2 years starting with the issue date. . The natural gas supply activity carried out by the Issuer is limited to trading the natural gas received as payment for transit services.

Details regarding the supply license are presented at Annex 6.

The natural gas is supplied based on commercial contracts freely negotiated between the parties, while for the regulated market the contracts are concluded in compliance with the provisions of the framework contracts approved by the Regulatory Authority. At present, the Issuer does not carry out natural gas supply activities based on regulated terms, but only within the unregulated market segment, towards eligible consumers or natural gas suppliers.

#### *Aspects regarding the supply License*

- In order to comply with the legal requirements for a legal, operational and organisational separation of regulated activities from the other activities carried out in the natural gas field, the Issuer started to discuss with the Regulatory Authority in order to find a solution for trading the natural gas received as payment within certain transit contracts. At the same time, the Issuer is in the process of renegotiating the natural gas transit contracts so as to eliminate this kind of payment, case in which it will give up the supply license. See also the information included at the section „Aspects regarding the transport license’ above. In connection with Regulatory Authority’s statement concerning the non renewal of the natural gas supply licence please read the information in paragraph a) Natural gas supply license – Aspects regarding the supply license.
- The Issuer has not set or maintained during the validity period of the supply license the financial guarantee securing the continuous performance of the supply activity, which should be of at least 1/12 of the cost for gas acquisition of the previous year. The Issuer has requested the opinion of the Regulatory Authority regarding the compliance with this validity term of the license.

The Issuer states that it has complied with the main obligations included in the natural gas supply license no. 560/13.01.2006, except for the issues mentioned above.

#### **e) Research and design for the transport activity**

The Issuer carries out the research and design activity for the natural gas transport activity.

In order to carry out some specific design activities, the Issuer holds specific authorisations depending on the terms and technical parameters of the design works, issued by the Regulatory Authority.

## 2. Description of the Issuer's main activities

The main activities generating income for the Issuer are natural gas transport and transit, as well as the sale of the gas received in exchange for the transit services carried out for Gazprom Export. The research and development activity is one of the Issuer's main activities especially in connection to NTS operation and development and less for the capacity to generate income through services provided to third parties

The transport and transit (except for the transit through dedicated major pipelines) are activities related to the regulated segment of the Romanian natural gas market and, therefore, they are carried out based on tariffs decided by the Regulatory Authority in the field.

At present, the natural gas transit activity in Romania is carried out only through dedicated pipelines, without using the transport major pipelines for the consumers in the country and without being connected thereto.

Transgaz registers separately in the accounting books the transport services, the international transit services and the trading operations allowed by the law.

### *Issuer's strategy*

The gas transportation activity is regulated due to its monopolistic regime. The Regulatory Authority established a revenue cap methodology which offers predictability of revenues within the regulatory period, encouraging at the same time the efficiency of the network operator.

At the beginning of each regulatory period key inputs are set by the Regulatory Authority in order to determine the regulated revenue. Within each year of any regulatory period, the Issuer's allowed revenue is adjusted as specified by the methodology. For more details concerning the tariff methodology please see Chapter VI.2 Section – Summary of the methodology for regulated tariffs for the transport activity..

Within this strict regulating framework, the Issuer intends to seek improved performance by focusing on the following key elements:

- *Maintaining and operating the NTS in a reliable manner* so as not to encounter any discontinuities in the transit and transport activity which in turn would have a negative impact on profitability. Considering this objective, the Issuer planned a series of rehabilitation and improvement projects in order to keep the NTS's key parameters in the safety targets, but also to improve the easiness and the reliability of the network (the development of the "0" System).
- *NTS development* – the Issuer's investment programme includes projects for new links with the neighbouring countries' networks in order to secure the access to alternative gas supply sources. Also, the Issuer plans to expand the network in order to reach new potential consumers.

The tariff setting methodology remunerates any investments made in the development of NTS, by incorporating them in the regulated asset base after they are functional and applying the allowed rate of return to a larger asset base.

- *Improving the operating efficiency* faster than the Regulatory Authority imposed standards within the regulatory period. The current tariff methodology allows the Issuer to retain any efficiency gains, obtained within the regulatory period, above the Regulatory Authority targets. Any efficiency gains will increase the Issuer's profitability. To improve its efficiency, Transgaz will focus on the following key elements:
  - Implementing the SCADA system in order to facilitate remote monitoring, metering, configuration and pressuring of the network system so as to cut any costs related with these activities at this current stage.
  - Full implementation of the SAP information system
  - Reductions in the number of employees through natural retirements
  - Optimization of the organizational structure
  - Reducing technological consumption

The enlargement of the regulated asset base with the investments in NTS development, as well as the improvement of the operational efficiency faster than the pace imposed by the Regulatory Authority will generate increased profitability by the Issuer.

### ***Presentation of the NTS***

The NTS is owned by the state and has a strategic importance.

The national system of major pipelines is formed of 9 local subsystems interconnected through 21 technological joints.

690 major pipelines for natural gas transport are conceded to Transgaz based on the Concession Agreement, for a period of 30 years. In order to use the NTS (major pipelines and related equipment), Transgaz pays a royalty of 5% per year of the income resulted from transport and transit activities.

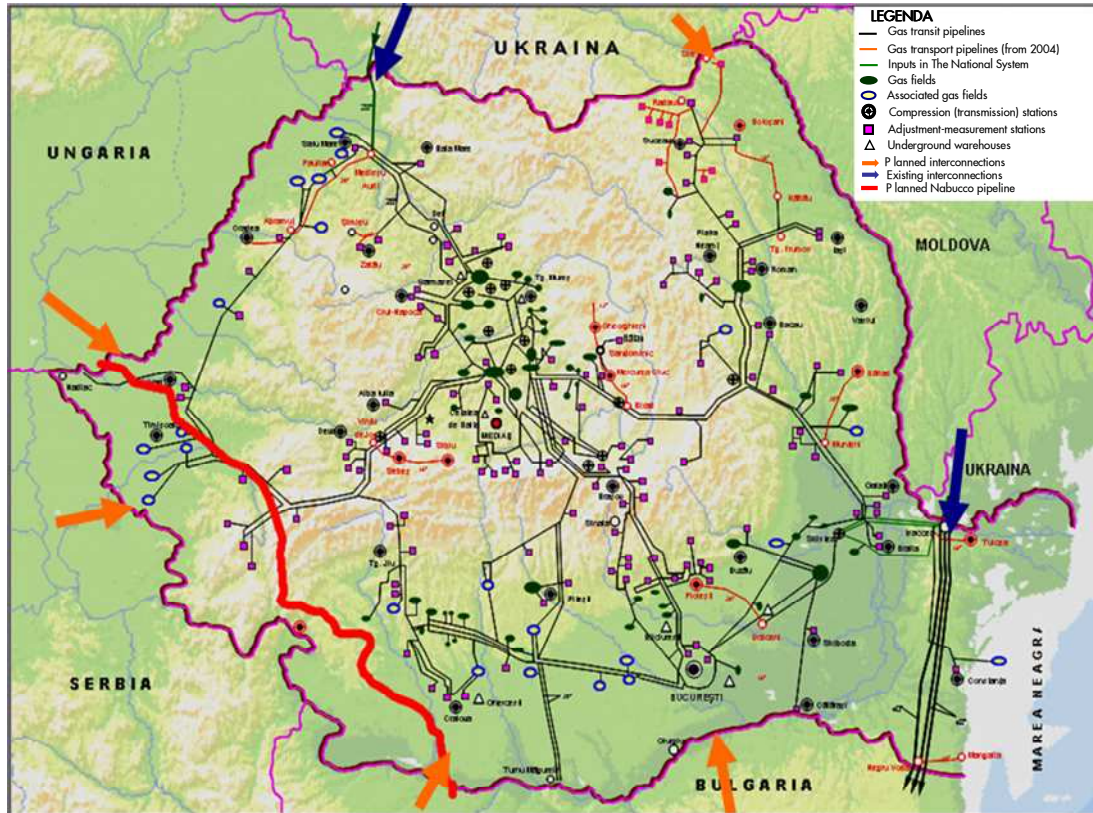
The transport capacity of the NTS is of approximately 40 billion cubic meters of natural gas per year and corresponds to the working pressures determined at a certain stage for each individual pipeline.

NTS infrastructure as of 31 December 2006 was formed of:

- 11,757 km transport pipelines with diameters between 6" and 40", which function at working pressures between 6 and 35 bars;
- 562 km international transit pipelines with diameters between 40" and 48" and nominal pressure of 54 bars;
- 2 stations for measuring imported natural gas;
- 159 panels for measuring the natural gas produced domestically;
- 6 natural gas compressing stations with a cumulated power of 65,000 horse power;
- 21 technological joints;
- 20 valve command stations;
- 22 inter-connections;
- 945 adjustment -measurement stations;
- 661 gas odourisation stations;

- 881 cathodic protection stations.

### Structure of natural gas national network:



Source: Managements Reports,

The major pipelines belonging to the NTS were built starting with 1927. Currently, a total of approximately 8,400 km (68.4%) of the network's total length exceeded its useful life period of 25 years.

The diagnoses carried out starting 1995 emphasized a high number of defects, mainly caused by the degradation of the passive insulation of the tubular material and confirmed by the increased power consumption of the 881 cathodic protection stations, most of them being equipped below the current standards.

The repair works carried out during the period 1986-2006 show that 24% of the pipelines older than 25 years were repaired and replaced. At the same time with the repair and replacement works, starting 2005, Transgaz also initiated a pipeline rehabilitation program. In 2006, 694 km were checked using a geometric pipeline scraper and 27 km were diagnosed in order to determine the insulation status. During the first semester of 2007, the interior of another 494 km was diagnosed with intelligent pipeline scraper and pipelines of 17 km were checked in terms of insulation status.

Out of the total adjustment and measurement stations by which gas is supplied to consumers, 163 are owned by economic agents, while 328 by local councils.

The functioning period of approximately 30% of them has exceeded 25 years.

Gas odourisation is carried out using some odourisation by vaporisation systems, technologically obsolete, that no longer correspond to the current environmental norms and do not satisfy the requirements of odourisation control imposed for distribution networks.

The 6 gas compressing stations are located on the main transport lines and have an installed power of approximately 65,000 horse power, with an annual compressing capacity of 5.5 billion cubic meters. The equipment of these stations dates back in the 70s.

- *NTS Operation*

NTS operation consists in all the operation and maintenance activities, planned repairs, revisions and actions carried out in order to assure a safe and continuous functioning of natural gas supply.

NTS operation is carried out by Transgaz as transport operator licensed by Regulatory Authority, in compliance with the validity terms of transport, transit and dispatch licenses.

NTS scheduling, functioning and dispatch is based on the Regulation on NTS Scheduling, Functioning and Dispatch and the NTS Technical Code, elaborated by Transgaz and approved by the Decision of Regulatory Authority no. 52/2001 and Decision of Regulatory Authority President no. 616/2002 respectively.

The NTS operator defines a list of monitoring points of quantitative and qualitative parameters within the system, which offer information regarding its functioning.

Upon reaching the minimum acceptable limit of the monitored parameter, below which the NTS cannot be controlled, the transport operator, through the Natural Gas National Dispatcher Medias, Natural Gas Dispatcher Bucharest (and the other levels of dispatch that have hierarchical authority relations over the participants to the natural gas market) will use the necessary levers for restoring the quantitative parameters to the acceptable limits, according to the regulations approved for NTS dispatch and the dispatch of the underground storage of natural gas.

The transport system operator must assure, using its own technical equipment and personnel, or based on contracts with specialized and authorized companies, the remedy of unforeseen cases related to any pipeline or technological installation that is part of the NTS.

The scheduled assembling or casing replacement works, the ones for connecting parts of new or fully repaired pipelines, as well as other specific works are carried out on a case by case basis, according to a schedule of works or manoeuvre slip drafted by the specialised department and approved according to its own procedures.

According to the regulations in force, a clear separation between the investment objectives (in pipeline modernisation, network development, equipment, etc.) and repair works is

made. If the respective work does not lead to the improvement of initial technical and functional parameters, it will not be considered an investment and will be financed out of operating expenses.

- *NTS Maintenance*

In order to eliminate gas leaks and failures, works are carried out in order to prevent the damages caused by third parties activities in the protection area of pipelines and installations, as well as the defects caused by corrosion and inappropriate welding. NTS maintenance is carried out based on the schedules and operative activities carried out by specialized companies and own units, based on the internal regulations and standards.

At present, the technical status of more than 200 km of transport pipelines is assessed using Transgaz methods.

An important change in the Issuer's strategic orientation has occurred with respect to the maintenance of NTS technical status in order to comply with the performance standard for the transport Service. If, until 2-3 years ago, full sections of pipelines were replaced based on the incident history and the subjective estimates of the operating personnel, at present, significant resources are allocated for diagnosing the technical status of the pipeline in order to replace only the parts with serious defects. Therefore, the focus was shifted from investments in pipeline replacement or capital repairs to clear maintenance works with the same effect (extend the pipeline life period according to the project operating parameters), the expenses being much lower. For this purpose, the Issuer organised and financed the pipeline preparation for inspection (cleaning pipeline scraper, geometric pipeline scarper and intelligent pipeline scraper). In this way, all the pipelines will be ready for inspection. In principle, each significant section will have a valves, inspection reports, inspection preparation projects, diagnosis reports, schedules for rehabilitation/repair, operating supervision reports, while the inspection-repair activity will be repeated once every 7 years.

Thus, the weights of the maintenance activities are changed, with focus on preventive maintenance in order to reduce corrective maintenance actions.

Increased attention is granted to pipelines cathodic protection, allowing the efficient protection of pipelines outside walls from the surrounding soils and the differences of potential as compared thereto.

#### *Evolution of accidental events during the period 2002-2007*

The technical defects and accidents are registered by each regional company and communicated to the Operation Department of Transgaz. These registrations provide information regarding the date, place and type of defect, cause and remedy, as well as the caused gas leaks. The information forms the basis of the maintenance program.

The table below presents the number of defects (mainly due to corrosion) of the pipelines per each regional company, as well as the number of technical accidents registered in the last five years.

**Status of the number of defects and technical accidents registered in the NTS during the period January 2002 - June 2007**

	2002	2003	2004	2005	2006	June 2007
Defects	118	109	99	141	92	30
Accidents	6	2	1	3	0	1
Total	124	111	100	144	92	31

*Source: Transgaz, Management Reports*

In 2005, the number of accidental defects was larger following the floods that affected Romania during the respective period. Without taking this influence into account, the general trend is the reduction of the number of defects caused by pipeline corrosion and, therefore, of the number of technical accidents. Still, the number of corrosion defects registered per year varies between 92 and 141, reaching approximately 1 defect per year for each 80 km of transport pipeline. This emphasizes their long life period and current technical status of the NTS.

- *NTS technological reconfiguration*

The NTS was conceived as an interconnected radial annular system developed around and having as starting points the large deposits of Transilvania Basin, of Oltenia and East Muntenia, the destination being the large consumers in the area Ploiești-Bucharest, North and South Moldova, Pitești-Râmnicu Vâlcea, Craiova, as well as the ones in the centre and northern part of the country. Subsequently, the natural gas flows changed significantly due to the decline of the sources in Transilvania Basin, Moldova and Oltenia. Other sources were used: import, Petrom-OMV, concessions carried out by third parties etc., while the transport infrastructure remained the same. Under the new circumstances, Transgaz considers a different structuring and limitation of the main pipelines system, depending on the technological functioning conditions, mainly based on working pressure stages. As a consequence, the NTS is to receive a new configuration, being formed of:

- National network of major pipelines, namely the “0” – “SOT” System, representing the total pipelines designed for a pressure of minimum 40 bars
- Regional network of transport pipelines, formed of 9 regional transport systems – “SRT”, designed for pressures ranging between 6 and 40 bars
- Local area of transport pipelines that includes all the pipelines for local natural gas transport – “SLT”, functioning at pressures of maximum 6 bars.

The medium term investments scheduled by Transgaz for developing and modernising the NTS aim also at creating transport pipelines for completing the “0” System, with favourable impact on the optimisation of the technological conditions and the flows of transported natural gas.

- *NTS interconnection with the systems of neighbouring countries*

Transgaz strategy has as main objectives, harmonized with the EU policies regarding the safe supply of natural gas, to diversify the supply of imported natural gas, by accessing sources from Western Europe and by interconnecting the NTS with the European transport system.



In order to achieve these objectives, Transgaz development plans include investments aimed at creating transport pipelines necessary for interconnecting the NTS with the transport systems of the neighbouring countries, which will also assure an optimisation of the technological conditions and gas flows in the NTS. Some of these are:

- Continue the works for finalising Szeged (Hungary) – Arad (Romania) pipeline, for connecting the NTS to the Hungarian transport network (thus getting indirect access to a connection with Austria);
- Make the interconnection in the area Cernăuți (Ukraine) – Siret (Romania) for improving the natural gas supply of the north-eastern part of the country and continue to create new connections with the Ukrainian transport system;
- Make a pipeline for interconnecting the NTS with the Bulgarian transport system, on Ruse-Giurgiu route.

At the same time, the company plans to develop a new import point, in Negru Vodă area, for supplying natural gas to the Southern part of Dobrogea;

In order to obtain a physical, technical and commercial balance in the NTS considering the free access to the transport network, there is the Natural Gas Dispatcher Bucharest that also carries out the duties of market operator. It will also be in charge of system balancing activities.

The high integration degree of the activities comprised in or deriving from the Issuer's basic activity raises certain issues regarding their treatment as independent main activities.

We present below, as main separate activities, the parts of the basic activity carried out according to the licenses issued by the Regulatory Authority, namely transport, transit, dispatch and trading of natural gas received as payment for transit activities. We also included the research and design activity among Transgaz main activities, considering its importance for the Issuer.

### ***Natural gas transport activity***

Transgaz carries out the transport of natural gas in Romania based on the transport license no. 40/17.01.2001, issued by the regulatory authority in the field for a period of 15 years.

The activity consists in taking over the natural gas from producers or suppliers and transporting it through the NTS to the consumers, distributors or storages.

In 2006, Transgaz transported through the NTS a quantity of 15.2 billion cubic meters of natural gas, out of which 10.1 billion cubic meters were produced locally and 5.1 billion cubic meters were imported.

The evolution of the natural gas volumes transported by Transgaz in the last three years through the NTS, as compared to total national consumption during the respective period is presented in the table below:

### Evolution of transported quantities of natural gas and the natural gas consumption in Romania

<i>bln cm</i>	2004	2005	2006
Gas transported through NTS	15.7	16.4	15.2
Gas consumption in Romania	17.545	17.744	17.840

Source: Transgaz-Management Reports, Romania's Energy Strategy during the period 2007-2020 (4<sup>th</sup> September 2007, final document)

In 2006, Transgaz transported natural gas from a number of domestic producers and from import to a series of beneficiaries representing distribution companies, licensed suppliers and eligible consumers, as presented in the tables below.

### Main sources of natural gas transported by Transgaz in 2006

<i>bln. cm</i>	Volume
Romgaz*	7.0
SNP Petrom	3.1
Import	5.1
<b>TOTAL</b>	<b>15.2</b>

\*Romgaz's volume include other smaller domestic producers

Source: Transgaz, Management Reports

### Main beneficiaries of natural gas transport service carried out by Transgaz in 2006

<i>bln. cm</i>	Volume	% of Total
<b>Licensed distributors - Total</b>	<b>6,972</b>	<b>46%</b>
- Distrigaz Sud	3,587	
- E-ON Gaz Romania	3,246	
- Others	6,972	
<b>Licensed Suppliers - Total</b>	<b>3,561</b>	<b>23%</b>
- Interagro Bucuresti	1,012	
- Petrom Gas	1,005	
- SNP Petrom	638	
- Romgaz	263	
- Amgaz Furnizare Bucuresti	231	
- Others	3,561	
<b>Eligible consumers - Total</b>	<b>4,704</b>	<b>31%</b>
- Electrocentrale Bucuresti	2,403	
- Azomures	726	
- Termoelectrica	374	
- Amonil Slobozia	362	
- Electrocentrale Galati	333	
- Mittal Steel Galati	222	
- Electrocentrale Deva	162	
- Others	4,704	
<b>TOTAL</b>	<b>15,237</b>	<b>100%</b>

Source: Transgaz, Management Reports

### **International natural gas transit**

Transgaz carries out the natural gas transit based on the transit License no. 41/17.01.2001 issued by the Regulatory Authority for a validity period corresponding to the agreements and contracts concluded with the main participants to transit.

The natural gas transit consists in the transport over the Romanian territory, with or without transshipment, through the NTS or dedicated major pipelines, of the natural gas coming from another country and going to a third country. This service is subject to the provisions of international agreements, and the transit tariff is negotiated between the parties, namely between the transporter and the beneficiary of transit services.

Transgaz provides international transit services for Bulgargaz and Gazprom Export, Gazprom commercial agent, allowing the transfer of Russian natural gas to:

- Bulgaria, through a pipeline of 183.5 km with a diameter of 1000mm
- Turkey, Greece and other countries through two pipelines with diameters of 1200 mm, first having a length of 186.3 km and the second one of 181.94 km.

All three pipelines transit Romania between Isaccea entry point and Negru-Vodă exit point.

The income obtained from the natural gas transit activity during the period 2004 – 2006 is presented in the table below. The transit tariff is determined on commercial grounds in the form of an amount for each 1000 cubic meters ordered capacity for 100 km of pipe or an aggregate amount (in case of transit to Bulgaria).

### **Quantities ordered to Transgaz and income during the period 2004-2006**

	UM	2004	2005	2006
Order capacity Transgaz	mil. cm	26,100	26,300	23,670
Revenues	ths. RON	242,315	219,546	212,667

Source: Transgaz, Management Reports

For 2007, Transgaz has an ordered capacity of 23,770 million cubic meters and estimates income of RON 215.2 million.

For the transit service carried out according to the agreement with the Russian Federation, Transgaz receives as payment, in exchange for the services it provides, certain quantities of gas that it trades at negotiated prices on the free market.

### **Development of natural gas international transit activity in Romania**

Transgaz strategy for the following five years aims at developing the natural gas transit activity in Romania.

For the development of natural gas transit capacities from the Russian Federation to Bulgaria, Turkey, Greece and Macedonia, the following are considered:

- Rehabilitation of the transit pipeline with a diameter of 1000 mm
- Rehabilitation of Danube underwater pipelines of Isaccea area

**NABUCCO Project – the largest objective regarding natural gas international transit**

*Project description*

Nabucco Project was initiated in order to connect the European markets to the natural gas reserves of the Caspian Sea and Middle East. The five specialised companies that decided to participate in this project are: BOTAS in Turkey, Bulgargaz in Bulgaria, Transgaz in Romania, MOL in Hungary and OMV Erdgas in Austria.

On 11 October 2002, in Vienna, these companies signed a Cooperation Agreement for forming a Consortium in order to carry out the Feasibility Study on building a pipeline over the territory of the five countries, starting from the border between Turkey and Georgia and Iran, the final destination being the Baumgarten joint in Austria (important joint where the Russian gas transited to Western Europe is collected).

The proposed route of NABUCCO pipeline is presented in the figure below.



Sursa: <http://www.nabucco-pipeline.com/>

The importance of this project was also recognised by the community bodies, as the European Community included it in the Trans European Networks (TEN) Program, on the list of priority projects. This inclusion also triggered the financing by the European Commission of 50% of the study's value, the remaining necessary funds coming from own funds of the five companies.

#### Technical data

Total pipeline length	3,282 km out of which 457 km in Romania
Transport capacity	8 billion cubic meters in 2011 with linear increase up to 25.5 billion cubic meters in 2030
Potential for Romania to import from this source	2-5 billion cubic meters/year
Total investment	approx. 4,4 billion EUR

Source: Romania's Energy strategy for the period 2007-2020 (final document, 4<sup>th</sup> September 2007)

In 2006, the request for exemption from certain provisions regarding third parties access to the system according to Gas Directive 2003/55/CE was submitted to the European Commission and the Regulatory Authorities and the selection procedure of the general designer was initiated. In the presence of the European Officer for Energy, in June 2006, Romania signed the Ministerial Statement by which the countries transited by the pipeline undertake themselves to support the Nabucco Project. At the end of 2006, the Nabucco project was included in the Priority Interconnection Plan of the European Union.

***Natural gas dispatch***

The dispatch contributes to the permanent and operative correlation in the NTS of the quantities of natural gas that entered and exited the system, at the parameters resulted from the delivery obligations, as well as to limiting the effects of exceptional cases caused by large natural gas consumptions during periods with very low temperatures, or in cases of natural disaster, major failures, etc.

Transgaz carries out this activity based on the dispatch license no. 561/13.01.2007 issued by Regulatory Authority for a period of 15 years.

NTS dispatch is based on the transmission over the phone of the operative data from the parameter collection points to regional dispatchers, followed by the online transmission to Mediaş Central Dispatcher and Bucharest National Dispatcher. The data transfer is made using the specialised software “Gas transport management” developed within the information system for the financial-accounting management MAIS. There is no system for automatically taking over the data from the measurement point (of SCADA type). The manoeuvres triggered by the gas dispatch in the NTS are carried out manually at the interconnection joints of the main pipelines, at the measurement panels, in order to take over the gas from the fields, and at the adjustment-measurement stations. The implementation of an automatic monitoring, command and data acquisition system - SCADA is included in Transgaz development strategy for the period 2007-2013.

During the second regulatory period, the tariff for dispatching and balancing the transport system will be implemented. The tariff will have only one volumetric component, expressed in RON/1000 cubic meters of natural gas that entered the transport system. This tariff will cover the transporter’s costs for (i) dispatching the quantities of natural gas notified by the users, including establishing the routes for the optimum functioning of the system and management of system congestions and (ii) assuring the physical balance of the transport system by the continuous correlation of the exits and entries in the system, according to the users’ notices.

At present, the dispatch activity is carried out by the National Dispatcher for Natural Gas Mediaş and the Natural Gas Dispatcher Bucharest. The latter includes the market operator that also has legal duties in elaborating the natural gas balances, namely: achieving the gas basket based on the uniform allocation to all the consumers of gas produced domestically and imported.

The dispatch tariff is included in the transport tariff and it will continue for the current gas year, namely until 30 June 2008 (according to Order no. 10/18.06.2007 of the Regulatory Authority).

***The sale of natural gas received as payment in kind***

Transgaz sales the natural gas obtained as payment for the natural gas transit service carried out for Gazprom Export. In order to carry out this activity, the Issuer holds the supply License no. 560/13.01.2006 issued by the Regulatory Authority for a period of 2 years. For 2006, the Issuer was authorised to supply a quantity of 5 billion cubic meters, while for 2007 the Issuer stated a quantity of 153 million cubic meters. The supply of natural gas by Transgaz is included in the

competitive segment of the domestic market, where prices form freely based on the demand and offer.

### Volumes of natural gas sold and the its revenues (2004-2006)

	U.M.	2004	2005	2006
Volumes of gas sold	mil. cm	191.653	60.182	86.949
Revenues (sale of gas)	ths. RON	91,130	36,836	71,623

Source: Transgaz, Management Reports

According to the Order of the Ministry of Industry and Resources no. 292/2003, until May 2006, the gas received as payment for the transit activity was mainly used for covering its own technological consumption, while the rest, if any, could be sold. Starting on this date, by the Common Order of MEC/ANRGN/ANRM no. 102136 of 25.05.2006/ no. 530 of 18.05.2006/ no. 97 of 18.05.2006, it was decided that the quantities of natural gas resulted from the transit activity were to be used exclusively for covering part of the consumption demand of captive users. As a consequence, they were to be allocated pro rata to all the suppliers that served captive consumers (residential consumers). As the suppliers were not interested to buy and the Issuer already concluded agreements for the entire quantity it was to receive as payment for transit, Transgaz traded the entire quantity on the liberalised market.

### Research and design activity

The research and design activity for the development, modernisation and revamping of the NTS is carried out by the Research, Engineering and Regulations Department of Transgaz.

It mainly responds to the Issuer's needs regarding:

- the elaboration of programs, studies, technical and economic analyses needed for the basic activity (natural gas transport activity);
- the elaboration of solution and feasibility studies, technical projects for Transgaz own objectives;
- scientific research and technological engineering works, including
  - o elaboration of norms, technical conditions and standards for complying with the European legislation on natural gas
  - o check and test the quality of the passive and active protection works of transport pipelines
  - o decide the composition and characteristics of the natural gas circulated through the NTS
  - o monitor the pollution factors and check that the NTS operation activity complies with the legal provisions regarding environmental protection.

The design activity mainly focuses on elaborating the documentation necessary for repairing, rehabilitating and developing the NTS for third parties access to the national transport network, etc.

Transgaz has specialised laboratories for: (i) trying, checking and testing machines, (ii) pipeline diagnosis, (iii) analyses of natural gas, (iv) geo-technical equipment and (v) environmental protection.

### ***Evolution of technological consumption. Performance standard of transport activities***

The table below presents the status of technological consumption, considered an important tool for showing the efficiency of the Issuer's basic activity.

	U.M.	2004	2005	2006	6 months 2007
Total transported quantity	mil cm	18,195	18,140	18,314	8,699
Technological consumption	mil cm	429.5	399.2	388.5	160
	%	2.36	2.20	2.12	1.84

Source: Transgaz, Management Reports

Note: The total transported quantity of natural gas comprises the transported quantity of natural gas to which the transport tariff applies and the gas transported for storage during the respective year.

Technological consumption includes Transgaz own consumption and technological losses. Considering the total transported quantity of natural gas, the reported technological consumption decreased continuously, thus generating economic efficiency for the Issuer.

Transgaz and the Regulatory Authority are constantly preoccupied by the quality of the transport service. In order to monitor the quality of the natural gas transport services based on specific indicators and minimum performance levels, a Performance Standard for natural gas transport entered into force starting 1<sup>st</sup> January 2007, approved as Annex 1 to Regulatory Authority decision no. 1361/13.12.2006. It sets the obligations of the transport system in connection to NTS users, applicants requesting access to the NTS and the Regulatory Authority.

The Standard defines certain performance indicators and their level during 1 year. The safety of the transport service is measured using three IP 11 indicators regarding:

- the percent of the network controlled yearly for determining gas losses;
- yearly number of defects per one kilometre of checked network;
- yearly number of defects identified following the complaints of third parties per one kilometre of active network.

Transgaz must report to the regulatory Authority on a yearly basis the level of complying with the performance indicators set by the Standard. The first reporting, for 2007, will be elaborated in March 2008.

### **3. Investment Policy**

#### ***Issuer's investment policy for 2004-2006***

During the period 2004-2006, the investment modernisation-development plan was correlated with Transgaz strategy, an integral part of the program for Romania's energetic development in



the medium term. RON 501.3 million were invested, covering the realization of 847.5 km of new pipelines within the rehabilitation program, as well as the revitalization and replacement of 65.4 km of pipelines. Other rehabilitation works were the modernisation of 4 technological joints (Sârmăsel, Urziceni, Coroi, Sendreni), modernisation of the gas measurement station Isaccea II Tranzit Turcia, as well as the installation of 97 high pressure joints and the modernisation of adjustment-measurement gas delivery stations with debits below 10.000 Nmc/h necessary for supplying gas to certain cities.

Out of the total 12.258 km of pipelines built during the period 1927-2005, approximately 8.400 km, representing 68.4%, had obsolete functioning period. Due to the moral and technical wear of the transport pipelines, Transgaz elaborated an investment strategy considering the system's needs. It is based on a program for the diagnosis of the pipeline technical status in order to assess the necessary works for system rehabilitation. This programme has started in 1995 and by middle of 2007, 2,882 km of pipelines have been diagnosed, out of which 721 km of pipelines in 2006 and 511 km of pipelines in the first semester of 2007.

The following table presents the amounts allocated to the investment works starting with 2004 until 2006:

Million RON	2004	2005	2006
SNT modernization and revamping	39.7	16.4	23.7
Development of gas transport system and related installation	216.7	209.6	140.2
Independent equipment	1.9	7.7	2.5
Other construction works	10.9	3.3	2.1
Expenses with studies and projects	0.9	2.1	2.0
<b>Total</b>	<b>270.1</b>	<b>239.1</b>	<b>170.5</b>

Source: Transgaz, Management reports

Over 76% of these amounts have been allocated for the system development part and the development of afferent installations for carrying out the objectives established in the minimum investment plan handed to ANRM.

### ***Overview of the Issuer's investment policy***

According to Oil Law no. 238/2004, the development (or investment) is defined as all the works consisting in building, assembling, rehabilitating and modernising specific installations, collecting pipelines, major pipelines, equipment and other utilities necessary for transport and transit.

The Issuer's investment policy is based on the following reasons:

- For performing the public service of natural gas transportation, the Issuer must agree with ANRM upon a minimum investment plan. Nevertheless, ANRM has not the capacity of establishing/ approving the performance standard for natural gas transportation system, as this is being set by the Regulatory Authority. Also, there is the possibility for some investment requirements to be imposed by certain economic policy objectives established at

governmental level, that can prove not viable, but remain for a period as Issuer's formal obligations.

- The Issuer must obtain Regulatory Authority's approval for multi-annual prudential investment plans that will allow the fulfilment of the public service of natural gas transportation, respecting also the performance standard. Nevertheless, ANRE has also as objective consumers' protection against excessive prices, thus creating an additional restriction concerning the volume and rescheduling of capital expenses admitted in the regulated income;
- The Issuer exploits one of the oldest European gas transportation systems, with pipelines of different ages, different materials, diverse production technologies etc. The diagnosis of the technical state of NTS is under way and will not end before the realization of the initial public offering of Transgaz.
- Because Transgaz inherits an old transportation system, the human factor still has an important role in exploitation, these determining a relative high number of employees in comparison to comparable Western European companies. Also, the flow in certain sections is under the initial projected level, or under the level practised in similar countries/ companies. Because of this, the Issuer's alignment to the productivity levels of similar companies in the European Union is an objective that may be achieved only in the long term.
- The Issuer is in the decisive phase to finalize some operations of complex diagnosis of the technical state of some representative pipelines sectors. This has allowed the change of the strategic orientation from investment expenses dedicated to replacement of entire pipelines section and increase of projected parameters to operational expenses dedicated to replacing only the defected sections and reducing the sections at the initial project parameters. This policy has a substantial effect on Issuer's total expenses, but will also have a reduced effect on the regulated assets base (RAB).
- Transgaz was set up by reorganization of a vertical integrated company with activities of production, probing, transport, distribution, supply, transit, related activities etc. For that company the priorities have been established in a different way to the disadvantage of some activities compared with others. For example, the implementation of a SCADA system is the objective for the transportation activity since 1993. The Issuer will realize it only in the following regulatory period.
- Romanian natural gas market has been subject to a profound reform process from a sector dominated by a vertical integrated monopoly to an open competition structure, regulated access of third parties to the network, new transactional mechanisms that impose new platforms, new operators or new roles for the existing operators. In order to fulfil the role of an equilibration operator and dispatch, the Issuer must invest in equipments, especially in information systems (administration and monitoring and in transactional platforms) and transmitting data systems.
- NTS serves a transitional economy, characterized by the disappearance of huge concentrated consumers placed in certain areas and increase of the residential consumption and tertiary sector (the transition from consumption and measurement based on a centralised plan towards consumers positioning near primary resources, work force or product markets). The investment policy must support this effort of NTS dynamic reconfiguration.

- At present, Romania represents an important territory for natural gas transit from Russia to Balkan area and Turkey. The development of national markets in countries from West Balkans, the development of new transportation corridors from Middle Orient towards European Union, or from Russia towards the eastern part of the EU, are trends in a dynamic geopolitical area difficult to forecast at present. Transgaz is part of the consortium that develops the Nabucco project, but Romania can be circumvented by the new network South Stream. The uncertainties generated by the profound political implications make the planning of an investment in a new transit project very difficult. The Issuer's contribution to the equity of an international project as Nabucco may not be quantified at present, the investment depending on the international context and the results of a detailed feasibility study concerning the project. The effort for guaranteeing a diversification of possible sources of import for covering the Romania's internal consumption must not be neglected, in the conditions in which the internal production is dropping significantly in time. This diversification effort may need capital expenses for the realization of new inter-connections.
- Meeting the requirements of the performance standard for the transportation service of the natural gas measurement regulation and not only, impose investments in modern equipments, up to date odouring stations and other similar elements that permit and reduce the number of employees and implicitly reduce the specific exploitation expenses.

### ***Issuer's investment plan***

#### *Elaboration framework for the Issuer's investment plan*

The Issuer's investment effort for the following years is directed by:

- its minimum investment obligations imposed by the minimum investment Plan for the period 2007-2011 as per the Addendum 2/19.10.2007 at the Concession Agreement (the fulfilment of the obligations being watched by ANRM),
- investment necessities for fulfilling the obligations of carrying out the public transport service, watched by Regulatory Authority. For this, the Regulatory Authority analyses and approves the investment plan proposed by Transgaz, and the assets resulted from the investment plan approved by the Regulatory Authority are included in the regulated asset base and remunerated with a regulated rate of return,
- the objectives derived from the Romanian Energy policy. These objectives have been assembled into one document "Romanian Energy Strategy for 2007-2020" (final document, 4<sup>th</sup> September 2007)

According to the NTS Concession Agreement signed with ANRM, a minimum investment plan must be presented and submitted for approval to ANRM once every 5 years. It must contain Transgaz investment priorities for the transport systems. The minimum investment plan for 2007 – 2011 is presented in the following table.

<i>RON mn.</i>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>TOTAL</b>
Investments	118	219	104	117	86	644
Rehabilitation	63	55	81	90	92	381

*Source: Management Reports*

According to the Transgaz's Budget for 2007, the Issuer planned the following development and modernisation works for the NTS, as well as the following works for the rehabilitation of the transport network:

<b>Works for development of NTS</b>		<b>2007</b>
Natural gas transport pipelines for supplying a new consumption area	mill. RON	130
<b>Total</b>	mill. RON	<b>130</b>
<b>Modernization of NTS installations and equipment</b>		
Technological joints	mill. RON	15
Modernization of adjustment-measurement stations	mill. RON	16
Modernization of cathodic protection stations	mill. RON	1
Modernization of gas odorising stations	mill. RON	2
Modernization of gas measurement systems (energy units)	mill. RON	0
Information systems	mill. RON	0
Other investments	mill. RON	21
<b>Total</b>	mill. RON	<b>55</b>
<b>Total Investments</b>	mill. RON	<b>185</b>

Source: Management Reports

<b>Works for rehabilitating and increasing the safety parameters of natural gas transport pipelines in(mill. RON)</b>	<b>2007</b>
Repairs of the major pipelines	38
Rehabilitation, repairs and services for SRM, technological joints and SMG	23
Environment protection	1
Repairs of equipment, installations and various services	3
Repairs and maintenance of stations	0
Repairs of buildings	3
Gas compression groups	8
Diagnose of pipelines	4
Other	5
<b>Total</b>	<b>84</b>

Source: Management Reports

According to the Economic development strategy for the period 2007-2013, the Issuer's multi-annual investment plan is the following:

<i>- mil. RON -</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Works for development of NTS</b>					
Natural gas transport pipelines for supplying a consumption area	50	-	24	31	18
Natural gas transport pipelines for optimizing technological conditions	71	52	26	6	-
Natural gas transport pipelines related to the "0" system	25	35	22	-	-
Technical and municipal objectives	3	3	3	4	4
Machinery and technological equipment	6	6	7	7	7
Develop new directions for natural gas import	76	-	-	-	-
Works for development of natural gas transit capacities	6	-	-	18	28
<b>Total</b>	<b>237</b>	<b>95</b>	<b>82</b>	<b>65</b>	<b>56</b>
<b>Modernization of NTS installations and equipment</b>					
Gas compression groups	7	3	3	15	-
Modernization of adjustment-measurement stations	35	35	18	35	14
Modernization of cathodic protection stations	1	1	1	1	1
Modernization of gas odorising stations	4	5	4	1	-
Modernization of gas measurement systems and accommodation to settlement in energy units	6	6	3	3	3
Information systems	19	23	23	3	4
<b>Total</b>	<b>72</b>	<b>72</b>	<b>51</b>	<b>58</b>	<b>21</b>
<b>TOTAL INVESTMENTS</b>	<b>309</b>	<b>167</b>	<b>134</b>	<b>123</b>	<b>78</b>

Source: Management Reports

For 2013 the Issuer planned development and modernisation works totalling RON 105 million.

Works for rehabilitating and increasing the natural gas transportation pipelines operation					
- mil. RON-	2008	2009	2010	2011	2012
Works for rehabilitating the natural gas subsystems	45	50	49	50	28
Pipeline replacement works	15	18	20	23	25
Cathodic protection systems	1	1	1	1	1
Gas compression groups	5	5	5	-	-
Technological joints	11	10	5	3	3
Adjustment-measurement station	62	62	62	62	62
<b>Total</b>	<b>138</b>	<b>146</b>	<b>142</b>	<b>137</b>	<b>118</b>

Source: Management Reports

For 2013, the Issuer's strategy includes rehabilitation expenses totaling RON 165.54 million.

*The investment policy objectives and areas of concentrating the investing effort*

According to the development strategy, the Issuer's main investment objectives for the period 2007-2013 are the following:

- Optimisation of the transport capacity and increased safety in operating the gas transport pipelines;
- Optimisation of technological consumptions and limit the natural gas losses in the NTS;
- Use the energetic potential of the natural gas in the NTS by loosening them;
- Implement system for using non-conventional energy sources in order to reduce emissions;
- Develop NTS for a maximum economic efficiency;
- Develop the capacities for taking over imported gas;
- Develop natural gas international transit capacities in Romania;
- Modernise information systems;
- Reduce pollution and assure the environmental protection by complying with the European environmental norms.

The Issuer's main directions for investments are:

- NTS rehabilitation and modernisation
  - Modernisation
  - Rehabilitation
  - Information systems - SCADA
  - Endowments
- NTS extension
- Interconnection with other transportation systems
- Development of the transit activity.

### *NTS rehabilitation and modernisation*

#### *NTS Modernisation*

The objectives considered are:

- modernisation of adjustment-measurement stations and of technological joints;
- modernisation and automatisisation of cathodic protection stations;
- modernisation of odouring stations and replacement of the odour used;
- modernisation of compressing groups;
- modernisation of the systems for measuring the gas quantities in power units;
- modernisation of gas measurement systems and equipment belonging to Transgaz;
- extension of information systems;
- introduction of the system for the control, automatisisation and technological data acquisition of the transport system

NTS modernisation is considered as part of the capital costs for investments and is capitalised.

The technical state of the transportation system led to the necessity of putting the modernization of the odouring system among the investment priorities. The modernisation of the gas odouring system is one of the stages for improving the natural gas transport system, directly impacting on the increase of operating safety of the transport network and distribution networks, people's safety and the environmental protection.

#### *NTS Rehabilitation*

The NTS purpose is to restore to the initial value the transport capacity affected by the physical and moral wear of the main system components: major pipelines, gas compressing stations, cathodic protection station, technological joints and adjustment-measurement stations. Planning the works and deciding their priority is based on the process of diagnosing the current technical status. All these expenses are considered operating expenses.

#### *Information Systems*

Another important element regarding the investment in NTS development and modernisation is the investment in state of the art information systems. As shown at the beginning of the chapter, the Issuer's fulfilment of the market operator and balancing requirements, of transportation system operator (dispatcher), require the implementation of complex and state of the art information systems, which will allow the operation in real time of the NTS, but also gas physical transaction and the afferent services in real time on the new liberalised market. At present, NTS dispatch from the parameters collection points to the regional dispatchers is based on the transmission over the phone of the operative data. After that, these are transmitted online to National Natural Gas Dispatcher Medias and the Natural Gas Dispatcher Bucharest using the specialised software "Gas transport management" of MAIS range. In order to make the data

transmission more efficient, it is important for Transgaz to implement a competitive system for monitoring, command and data acquisition of SCADA type.

### ***Extension of the network of transport major pipelines***

These investments carried out by Transgaz with the aim of increasing the transport capacity, as well as for the connection of new consumers, are included in the capital costs.

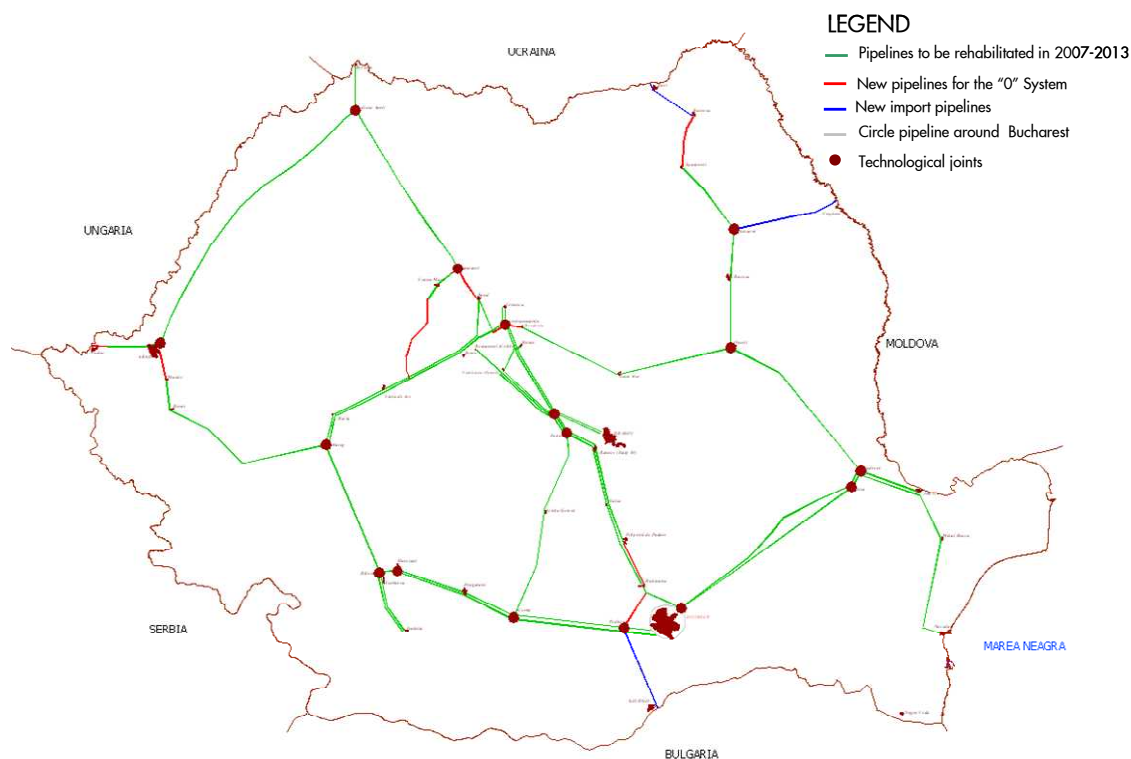
The extension of transport main pipelines network may be triggered by the existence of new consumption areas that are not covered by the existing network, the optimization of the technological flows in the existing network or the connection of new warehouses for gas storage – all these need the assembly of new pipelines or building new systems containing, beside the transport pipelines, other structure items (measurement panels for gas taking over, compressor stations, adjustment-measurement stations, technological joints, etc.).

In terms of investment works, NTS development mainly consists in the following:

- build transport pipelines, high-pressure joints and adjustment-measurement stations needed for the supply of natural gas to the new distributions;
- build transport pipelines related to some underground natural gas storage systems;
- build transport pipelines for the completion of “0” System impacting on the optimization of the technological conditions and gas flows in the NTS;
- creation of new compressing capacities in the cases technically and economically justified, considering the development of gas transport, as well as the modernization of the existing compressing stations.

At present, the company is in the process of developing of an annular system starting from the existing pipeline infrastructure – a system aimed at making more efficient the main gas transport flows on a national level. This system, called “0” System, is operated at the highest pressure level (up to 40 bars), assures the entire interconnection of all the main sources in the country and abroad, gives the possibility of optimizing the gas flows with minimum power consumption, gives increased flexibility and safety in the supply of gas to large consumption centres considering the liberalization of the gas market, the increased number of gas producers and suppliers, as well as the free access to the network and the consumers’ possibility to choose their own suppliers.

## “0” System for natural gas transportation and pipelines for gas imports



Source: Transgaz Management Reports

### *Development of transit activity*

Regarding the existent transit pipelines, the investments taken into consideration have as objective making the transit activity more efficient through realization of, among others, an automated system for collecting data and dispatching this activity.

### *Nabucco project*

The Issuer considers the development of the transit activity mainly by means of the future Nabucco project, Transgaz holding 20% in the Project Company - Nabucco Gas Pipeline International GMBH, registered on 24 June 2004, with headquarters at Vienna, Austria.

Nabucco project is a strategic infrastructure project for transporting hydrocarbons from the Caspian Sea area towards the internal EU market. Nevertheless, some difficulties such as different legal and regulatory regimes, financial schemes and supply contracts slow down the progress. These issues generate uncertainties for the planning of the project implementation on short and medium term and refer to the following:

- different legal status of ownership over interstate pipelines for hydrocarbons transport in the countries to be crossed;
- different regulations for the tariffs applied for using these systems in the different participating countries;



- current absence of a financing plan defining conditions and terms regarding possible closure of the financial scheme;
- the fact that the „open season” procedures (auctions for reserving transport capacities) have not been initiated yet, which has not yet eliminated the uncertainties regarding the natural gas demand in this transport/transit system,
- insufficient rating of some participants which made necessary the involvement of a strategic investor – not confirmed yet,
- absence of clear contracts for natural gas supply in the Caspian Sea area,
- strong expansion of the Russian Federation in the area and the fact that Nabucco crosses other routes intended to bring natural gas from the Russian Federation to South Europe (Italy, Greece), Western Balkans even through Romania și Bulgaria, as well as the increase of the supply capacity of the systems already going to Austria, combined with Gazprom entry in the downstream area of din Austria

All these reasons and considering the extremely dynamic geopolitical context in the Black Sea area conclude that the possibility to obtain project finance for Nabucco and to start the substantial expenses by Transgaz for project implementation and repayment of the loans for the project in the following 1-2 years reduces significantly. Under these circumstances, the initial planning of the Issuer of substantial capital expenses for this project has to be revised, while a current estimate of the Issuer’s market value should not take into consideration the Nabucco project.

#### Issuer’s planned investments in Nabucco project

- RON Million -	2007	2008	2009	2010	2011	2012	2013
Investments in Nabucco Project (Transgaz participation 20%)	4	58	129	164	139	129	129

Source: Management Reports

## 4. Research and Development, Patents and Licenses

### *Invention Patents*

The Issuer holds, together with other holders, three invention patents:

- ”Injection anode mounting for anti-corrosive protection”, invention patent no. 120717, deposit no. A/00939/01 July 2002; holders: Transgaz and ICPE – Cercetari Avansate SA, Bucuresti;
- ”Procedure for anti-corrosive protection of steel pipelines”, invention patent no. 112662, deposit no. 00491/07 March 1996, holders: Exploatarea Conductelor Magistrale de Gaze Naturale Medis and Institutul de cercetari chimice ICECHIM Bucuresti;

The co-holders of the invention patent ”Procedure for anti-corrosive protection of steel pipelines” no. 112662 concluded an exclusive license contract with Pro Auto Industries SA Bucuresti, licence published in the Official Gazette of Industrial Ownership no. 2/2004. The contract is concluded for a period of 10 years.

- Self-adhesive band for anti-corrosive and electric protection of metallic pipelines, how it is obtained, protection system and application procedure”, invention patent no. 118806, deposit no. 00117/05 February 2002, holders: Pro Auto Industries SA Bucuresti, Transgaz and ICECHIM Bucuresti.

With respect to the invention “Self-adhesive band for anti-corrosive and electric protection of metallic pipelines, how it is obtained, protection system and application procedure”, on 23 January 2003 the holder concluded an Agreement for the common exploitation of the invention subject to the request for patent, by which they decided that the production and domestic and foreign sale of the products achieved based on the invention would be carried out by Pro Auto Industries SA, during the validity period of the invention patent, according to the know-how taken over.

The protection given by these patents expires on (i) 1 July 2022, (ii) 7 March 2016 and (iii) 5 February 2022, respectively, on condition that the tax provided by the law for keeping the validity of the patents is paid. The taxes for keeping the validity of the three patents are paid until 2008.

### ***Software licenses***

The Issuer uses exclusively legally licensed software on all the computers and hardware equipment used. The software license contracts are concluded in standard form, according to the industry practice.

### ***Trademarks. Designs and industrial models. Domain names. Copyright.***

The Issuer holds only one domain name, namely transgaz.ro.

The Issuer does not hold (i) copyright, (ii) trademarks or request for trademark (communitarian mark, mark registered nationally or international mark with protection in Romania), or community trademarks or drawings and industrial models.

## IX. INFORMATION REGARDING THE ISSUER

### 1. History and evolution of the Issuer

The Issuer is a Romanian legal entity, a joint-stock company with the following identification details:

<b>Name of the issuer</b>	Societatea Nationala de Transport Gaze Naturale Transgaz S.A.
<b>Legal form</b>	Joint-stock company
<b>Registration number at the Register of Commerce</b>	J32/301/2000
<b>Unique registration code</b>	13068733 / 02.06.2000
<b>Tax attribute</b>	RO
<b>Set-up date</b>	7 June 2000
<b>Issuer's functioning period</b>	unlimited
<b>Registered office</b>	1 Pta. Constantin Motas, Medias, Sibiu county, Romania
<b>Telephone numbers of the registered office</b>	+4 0269 841966 +4 0269 803334
<b>Fax</b>	+4 0269 839029
<b>E-mail</b>	<a href="mailto:Cabinet@transgaz.ro">Cabinet@transgaz.ro</a>
<b>Web page</b>	<a href="http://www.transgaz.ro">www.transgaz.ro</a>

The Issuer is organised and carries out its activity according to the legal provisions in force, as well as the provisions of its Memorandum of Association approved by the Government Decision no. 334/2000 as subsequently amended, updated in the form of Articles of Association.

Once the Issuer's shares will be accepted on the regulated market managed by the Bucharest Stock Exchange, the Issuer will carry out its activity also in accordance with the capital market legislation, namely the Capital Market Law and the secondary legislation issued based thereon.

### ***Important events in the evolution of Issuer's activities***

#### *Set-up of the Issuer. Historical overview*

Transgaz S.A. was formed in 2000, according to the Government Decision 334/2000, following the reorganisation of SNGN Romgaz.

Following the restructuring of SNGN Romgaz, the Issuer has become the operator of the gas transport system, following the separation of (i) natural gas transport and international transit activities, namely dispatch activities from (ii) natural gas production, acquisition, storage, distribution and supply activities.

#### *Main restructuring stages of gas transport activity after the year 1990*

After 1990, the main restructuring stages of the natural gas activity are the following:

- *Formation of the natural gas autonomous company "Romgaz"*

According to the Government Decision no. 16/1991, the Pit Gas Company Medias was dissolved and the Natural Gas Autonomous Company "Romgaz" was formed.

The Natural Gas Autonomous Company "Romgaz" was an integrated entity carrying out activities in the field of natural gas, its main object of activity being the geological research for discovering natural gas reserves; drilling, extraction, transport, distribution and trade of natural gas; research, design, unit construction works, equipment maintenance and repair works, provision of services; import and export of specific products, machines, equipment and technologies; economic, technical and scientific collaboration and performance of works abroad in its field of activity; dispatch of gas deliveries and control of their usage for all consumer categories.

- *Formation of SNGN Romgaz*

The Natural Gas Autonomous Company "Romgaz" was restructured within the restructuring process in the natural gas sector.

Thus, in the first stage, according to the Government Decision no. 491/1998, SNGN Romgaz was formed, a company that became the technical operator of the natural gas transport system.

The main object of activity of SNGN Romgaz was the geological research for discovering natural gas reserves, storage, transport, dispatch, import, international transit and distribution of natural gas. SNGN Romgaz was formed of five branches, organised as joint-stock companies, their sole shareholder being Romgaz:

- o Branch for natural gas exploration, production and underground storage of natural gas - "Exprogaz Medias"
- o Branch for natural gas exploration, production and underground storage of natural gas - "Exprogaz Targu Mures" S.A.
- o Branch for natural gas exploration, production and underground storage of natural gas - "Exprogaz Ploiesti" S.A.

- o Branch for natural gas distribution - “Distrigaz Sud” S.A.
- o Branch for natural gas distribution - “Distrigaz Nord” S.A.
- *Reorganisation of SNGN Romgaz – Formation of the Issuer*

According to the Government Decision 334/2000, SNGN Romgaz was restructured and reorganised by means of a split. SNGN Romgaz was dissolved, leading to the full separation of the main activities in the natural gas sector to separate entities, namely:

  - o National Company for Natural Gas Transport “Transgaz” S.A. (for natural gas transport and international transit, dispatch)
  - o National Company for Natural Gas Underground Storage “Depogaz” S.A. (for natural gas storage)
  - o Two natural gas distribution companies – Natural Gas Distribution Company “Distrigaz Nord” S.A. Tg. Mures and Natural Gas Distribution Company “Distrigaz Sud” S.A. Bucharest (for natural gas distribution and supply) and
  - o Natural Gas Exploration and Production Company “Exprogaz” S.A. Medias (for natural gas exploitation – production)

Following the reorganisation, Transgaz was set up as a joint-stock company with a share capital of ROL 220,449,570 thousand, fully owned by the Romanian state represented by the Ministry of Industry and Commerce (at present Ministry of Economy and Finance).

Following the reorganisation of SNGN Romgaz, Transgaz has become the technical operator of the NTS and is responsible of its functioning in terms of quality, safety, economic efficiency and environmental protection.

- *Formation of the Market Operator within Transgaz*

In order to assure an organised framework for the fair and undiscriminating allocation of domestic and imported natural gas, according to the Order of the Ministry of Industry and Resources no. 85/02.04.2001, the Market Operator was formed, within the National Natural Gas Dispatcher Bucharest, included in Transgaz S.A.

The Market Operator determines the monthly quotas of domestic and imported gas of the natural gas mixture for all natural gas suppliers/distributors licensed according to the Government Decision 784/2000 on the approval of the Regulation for granting authorisations and licenses in the natural gas sector, as republished, with its subsequent changes, as well as for eligible consumers. At the same time, the Market Operator daily monitors natural gas acquisitions/consumptions, elaborates the monthly report on the acquisitions of domestically produced and imported gas by each operator on the Romanian gas market and by each eligible consumers, communicating them the quotas of import / total consumption for invoicing purposes.

*Important legal events in the evolution of the regulatory framework applicable to natural gas transport and transit activities*

- *Primary legislative framework applicable at the time the Issuer was formed*

In 2000, Romania was undergoing the process of restructuring and organising the energetic sector, while the configuration of the natural gas market was being defined.

Oil Law no. 134/1995, one of the first important laws in the field (currently cancelled by Oil Law no. 238/2004) regulated the legal conditions of oil operations (initially defined as all the activities regarding the exploration, development and exploitation of an oil ore), as well as the usage of oil resources, by means of administration or concession. ANRM was appointed the competent authority for enforcing this law.

According to the Government Ordinance no. 41/2000, approved by Law no. 791/2001, as subsequently amended and completed, in February 2000, the National Regulatory Authority in the Natural Gas Field was formed, functioning as a public institution with legal form, coordinated by the Ministry of Industry and Commerce.

The main tasks of ANRGN were the elaboration, enforcement and supervision of the implementation of the regulatory framework needed for the functioning of the natural gas market. Upon its formation, ANRGN took over some of ANRM tasks regarding natural gas transport. At present, according to the Government Emergency Ordinance no. 25/2007, the National Regulatory Authority in the Natural Gas Field and the National Regulatory Authority in the Energy Field were merged under one sole regulatory authority in the energy field, namely the National Regulatory Authority in the Energy Field.

Another important legal document in elaborating the regulatory framework for the natural gas field at that time was the Government Ordinance no. 60/2000 regarding the regulation of activities in the natural gas sector (currently cancelled by Gas Law no. 351/2004). This regulated also the natural gas transport and transit activities, the status of natural gas transport system – considered to be owned by the state, having a strategic importance, as well as the rights and obligations of the national gas transporter.

- *Law no. 213/1998 regarding public property and its legal status*

Public property law no. 213/1998 clarifies the legal status of the NTS and expressly qualified the “natural gas transport pipelines” and “gas supply networks” together with the “related installations, constructions and land” as goods belonging to the State’s public domain.

- *Approval of the natural gas Technical Code by Regulatory Authority Decision no. 616/2002*

The main purpose of the technical code for the natural gas sector is to impose and promote the minimum technical requirements specific to the natural gas sector, as well as the general requirements, both the ones provided by the primary and secondary legislation, as well as the ones that have to be detailed in the technical norms by the licensed operators. Thus, the purpose was to assure the safe functionality, stability and economic efficiency of the infrastructure in the natural gas sector, which represents the physical support for the

continuous and safe supply of natural gas. Some of the objectives expressly included in the technical code are: (a) to decide the technical requirements for basic activities, related to the infrastructure in the natural gas sector, namely the design, construction, operation and maintenance; (b) responsibilities of licensed operators and users of the transport system and/or the storage system and/or the distribution systems; (c) establish the requirements for developing the transport, storage and distribution systems; (d) establish the technical requirements for the connection to transport and distribution systems; (e) controlling and inspecting methods used in the natural gas sector.

On 5<sup>th</sup> October 2007, the Regulatory Authority published on its website a draft document of the “Network Code, referring to the conditions and rules for using the NTS. This document is under public debate until 2 November 2007.

- *Oil Law no. 238/2004*

The first step in completing the regulatory framework regarding gas and oil natural resources is the Oil Law no. 238/2004, which includes, among oil operations, also the underground storage, oil transport and transit through major pipelines, as well as the operation of oil terminals.

Clarifications regarding the enforcement of this law expressly provide that the legal status of the natural gas transporter through the NTS is decided by means of a special law. At the same time, the method for regulating the access, the denial of access to the system, the approval of the technical norms regarding natural gas transport, the commercial operations carried out, as well as the tariffs for carrying out the natural gas transport service are decided by the competent authority with regulatory function in the natural gas sector and market, namely the Regulatory Authority.

- *Gas Law no. 351/2004*

Gas Law no. 351/2004 cancelled the Government Ordinance no. 60/2000 regarding the regulation of the activities in the natural gas sector and contains provisions aimed at correlating the regulatory framework specific to the natural gas sector with the community legislation, by reflecting the basic principles in the Romanian legislation.

Thus, Gas Law no. 351/2004, as well as its subsequent amendments, aimed at implementing a policy assuring the liberalisation of the natural gas market, as well as a functional and competitive market.

For this purpose, it regulated the principles for assuring the independence of the operators of natural gas transport and distribution networks, as well as the accounting, legal, functional and organisational separation of the companies carrying out business in the regulated natural gas sector.

According to Gas Law no. 351/2004 and the Directive 2003/55/EC, starting 1 January 2007 and 1 July 2007, respectively, the obligation to assure the legal, functional and organisational separation of regulated activities carried out by companies active in the natural gas sector is regulated. This requirement is also included in the condition 71 of the validity terms of the natural gas transport License held by the Issuer.

According to the same legal documents, some minimum criteria for assuring the independence of the transport operator are also regulated:

- o the people managing the transport operator cannot be part of the structures of the integrated company in the natural gas field responsible with coordinating the natural gas supply directly or indirectly
- o the transport operator must have effective decision making right, independent of the integrated company in the natural gas field responsible with coordinating the natural gas supply directly or indirectly
- o the transport operator decides a plan of measures in order to make sure that there is no discrimination and that monitoring activities are carried out.

The Issuer states that it complied with the minimum requirements for assuring the independence of NTS operator, as per art. 22 of Gas law no. 351/2004.

The Issuer carries out (i) the activity of natural gas transport, which also includes the dispatch activity (regulated activity); (ii) the activity of natural gas transit through dedicated major pipelines (non-regulated activity); (iii) in connection to the transit, the activity of supplying to eligible consumers the gas obtained as payment for transit services (non-regulated activity) and (iv) research and development activity.

The Issuer requested the opinion of the Regulatory Authority regarding the compulsoriness and application method of the provisions regarding legal separation and whether it might be considered a vertically integrated company, following the Issuer's restructuring according to the decision of the Extraordinary General Meeting no. 9/26 July 2007 (for additional information see Chapter VIII.1 – paragraph Aspects regarding the transport License).

According to document no. 20255/12.10.2007, issued by the Regulatory Authority, when the supply license expires it cannot be renewed or prolonged, a new one being necessary. In the same document, the Regulatory Authority considers that once the validity of the supply licence expires, the legal separation of the Issuer is complete.

At the same time, art. 24 of Gas Law no. 351/2004 stipulates that the NTS operator, does not have the right to carry out, directly or indirectly, operations such as the probing, extraction, distribution and supply of natural gas to consumers, including by holding shares or shareholdings or by means of a management agreement involving entities that carry out such activities. By derogation from these provisions, according to art. 26 from the same law, the NTS operator has the right to trade its own quantities of natural gas received as payment for transit services.

The Issuer states that it has not been involved, directly or indirectly, in operations such as the probing, extraction, distribution and supply of natural gas to consumers, including by holding shares or shareholdings or by means of a management agreement involving entities that carry out such activities, except for:

- trading the natural gas received as payment for carrying out natural gas transit services;
- the participation in SC Wirom SA, representing 0.0249% of the share capital of this company.



According to art. 109, par. 2 of Gas Law no. 351/2004, the non-compliance or the inconsistent compliance with the validity terms for the authorizations/licenses obtained is considered a minor offence and is sanctioned by fine from RON 10,000 to 50,000.

- *Government Emergency Ordinance no. 33/2007 amending and completing the Electric Power Law no. 13/2007 and Gas Law no. 351/2004*

The amendment of Electric Power Law no. 13/2007 and Gas Law no. 351/2004 was triggered by the dissolution of the National Regulatory Authority in the Natural Gas Field and by the take over of its tasks, budget, financing sources, personnel, rights and obligations by the National Regulatory Authority in the Energy Field. Thus, Gas Law no. 351/2004 states that the competent authority in the natural gas sector is the National Regulatory Authority in the Energy Field, an autonomous public institution of national interest, with legal status, fully financed out of its own sources, coordinated by the Prime Minister through the Prime Minister's Office. The Rules of organisation and functioning of the National Regulatory Authority in the Energy Field were approved by the Government Decision no. 410/2007.

- *Government Emergency Ordinance no. 101/2007 amending and completing the Mines Law no. 85/2003 and Oil Law no. 238/2004*

The oil royalty fee and the royalty fee for natural gas transport activity was increased from 5% to 10% of the value of gross revenues obtained from transport and transit operations through the national transport systems, following the entering into force of the Government Emergency Ordinance no. 101/2007, published in the Official Gazette no. 684/8.10.2007 .

- *Liberalisation of the natural gas market - evolution*

No.	Relevant legal document	Relevant period	Market openness degree according to the respective Government Decision
1.	Government Decision no. 638/2007	starting 1 July 2007	100% for all consumers
2.	Regulatory Authority's Decision no. 1368/2006	starting 1 January 2007	100% for all non-household consumers
3.	Regulatory Authority's Decision no. 637/2006	starting 1 July 2006	Any non-domestic consumer of natural gas is granted the right to be eligible if, during the period 1 July 2005 - 30 June 2006, it registered a consumption of at least 12,400 cubic meters of the total domestic consumption and was directly connected to the NTS, respectively
4.	Government Decision no. 1397/2005	starting 1 January 2006	65% of total domestic consumption
5.	Regulatory Authority's Decision no. 1347/2004	year 2005	50%

6.	Regulatory Authority's Decision no. 1076/2003	year 2004	Up to 40% of the total domestic consumption of the year 2003
7.	Regulatory Authority's Decision no. 997/2002	year 2003	Up to 30% of the total domestic consumption of the year 2002
8.	Regulatory Authority's Decision no. 1/2002	year 2002	Up to 25% of the total domestic consumption of the year 2001
9.	Regulatory Authority's Decision no. 133/2001	Initial openness degree of natural gas domestic market	Up to 10% of the total domestic consumption of the year 2000

According to the provisions of Gas Law no. 351/2004 and the Directive 2003/55/EC, the market of natural gas supply services was fully liberalised for all consumers starting 1 July 2007.

According to the latest statistics of the Regulatory Authority, the effective openness degree of the natural gas domestic market in June 2007 corresponding to the total consumption of the consumers that chose to exercise the right to choose their own supplier was estimated to be at 55.51% of total consumption.

#### ***Other important elements in the evolution of the Issuer's activities***

As part of the structuring and development of the natural gas sector and natural gas transport, transit and dispatch services, the regulatory framework was subject to significant amendments, as follows:

#### ***Important technical regulations for the organisation and functioning of the natural gas transport activity issued by Transgaz and approved by decisions of the Regulatory Authority***

- Decision no. 52 of 23 January 2001 regarding the approval of the Rules for scheduling, functioning and dispatching of the natural gas national transport system

The Rules for scheduling, functioning and dispatching of the natural gas national transport system were adopted based on Transgaz proposal and aim at assuring the operation, functioning, scheduling and dispatching terms for the transport through the NTS in order to provide quality services safely, efficiently, transparently, protecting the environment at the same time. These regulations are included in the framework agreements for natural gas transport.

- Decision no. 260 of 3 August 2001 for the approval of the Technical agreement regarding the operation of natural gas delivery/take over points

The Technical agreement regarding the operation of natural gas delivery/take over points is an integral part of the contracts for natural gas transport and contains the conditions regarding the minimum technological equipment of the commercial delivery/take over points, as well as the rights and obligations of the contracting parties regarding their operation. At the same time, it contains the measurement methods and means (counters / measurement systems and equipments), formulas used for determining and correcting the

quantities of natural gas, methods and means for determining the quality parameters of natural gas.

#### *Approval of the Concession Agreement*

The Concession Agreement was approved by the Government Decision no. 668/2002.

Details regarding the Concession Agreement are included in Annex 7.

#### *Approval of the Regulation regarding the access to the National Transport System and the Regulation regarding the management of contractual congestions in the National Transport System*

The Regulation regarding the access to the National Transport System was approved by the Government Decision no. 1043/2004. It regulates the access conditions for NTS applicants/users. The Regulation regarding the management of contractual congestions in the National Transport System was approved by the Regulatory Authority's Decision no. 757/2005; it contains the mechanisms for managing contractual congestions in the NTS.

#### *Approval by the Regulatory Authority of the Performance Standard for the natural gas transport services*

The Performance Standard for the natural gas transport services was approved by the Regulatory Authority's Decision no. 1361/2006. It regulates the commercial quality criteria, defined as performance ratios, in order to assure the natural gas transport service and the auxiliary services, carried out by the transport system operator.

#### *Regulations regarding the transport tariff*

The criteria and methods for approving the prices and the regulated tariffs in the natural gas sector were approved by Regulatory Authority's Decision no. 1078/2003, as amended and completed, including by Regulatory Authority's Decision no. 311/2005 approving the additional documents regarding the application of the criteria and methods for approving the prices and determining the regulated tariffs in the natural gas sector.

The transport tariff based on which the value of the transport services carried out for the gas year 2006-2007 is calculated was communicated in the Order no. 635/2006 regarding the determination of the regulated tariff for carrying out natural gas transport and comprises: (i) component for capacity reservation in the NTS – for 1000 cubic meters and reservation hour – 9.67 RON without VAT (in case of contracts for provision of transport services with capacity reservation), namely 9.14 RON without VAT (in case of contracts for provision of interruptible transport services) and (ii) volumetric component for each 1000 cubic meters transported – 25.35 RON without VAT.

According to ANRE Order no. 10/2007, these regulated tariffs for providing the natural gas transport service will also be applicable to the contracts for natural gas transport concluded for the gas year 2007-2008.

The tariffs mentioned above were replaced as of 1<sup>st</sup> October 2007, by Order of the Regulatory Authority no.33/2007 regarding the setting of the regulated transport tariff, according to which the tariff for the natural gas transport service for the period 1<sup>st</sup> October 2007 – 30<sup>th</sup> June 2008

comprises: (i) fixed component for capacity reservation in the NTS - for 1000 cubic meters and reservation hour 10.97 Lei without VAT (for contracts for the provision of natural gas transport services with capacity reservation), respectively 9.14 Lei without VAT (for contracts for the provision of interruptible natural gas transport) and (ii) volumetric component for each 1000 cubic meter transported: 37.28 Lei without VAT.

Further Information regarding the regulated tariff for transport activity is included in Chapter VI.11 – Information regarding trends.

*Approval by the Regulatory Authority of the framework contracts for natural gas transport*

The Regulatory Authority approves the framework contracts for carrying out the transport services. At present, the framework agreements approved by the following decisions are applicable:

- Decision no. 460/2006, amended by the decision no. 1360/2006, regarding the approval of the Framework Agreement for carrying out natural gas transport services with capacity reservation through the National Transport System, in force starting 1 July 2006
- Decision no. 528/2006, amended by the decision no. 1360/2006, regarding the approval of the Framework Agreement for carrying out natural gas interruptible transport services through the National Transport System, in force starting 1 July 2006.

The concept of interruptible consumer was introduced in connection to Directive 2004/67/CE regarding the measures for guaranteeing the safe natural gas supply, in order to assure the necessary consumption of all consumer categories and eliminate the malfunctions occurred on the domestic natural gas market during the winter 2005-2006 (following low temperatures and the decrease of imported natural gas in January and February 2006). According to the common Order of the Ministry of Economy and Trade, the Regulatory Authority and the A.N.R.M no. 102136/530/97 of 2006, the interruptible consumer contributes to maintaining the safe functioning of the NTS and the distribution systems by accepting decreased consumption until it stops, according to the provisions of Directive 2004/67/CE, in order to assure the supply to household consumers in the following circumstances:

- partial interruption of natural gas supply over a period to be decided considering the national conditions
- very low temperatures in a peak period on a national level
- colder periods, statistically occurring once every 20 years, when the request for gas is extremely high

According to the order mentioned above, interruptible consumer may be the eligible consumer that cumulatively complies with the following terms:

- has an hourly constant consumption of minimum 30,000 cm during the period October-March
- may be operatively interrupted within at most 24 hours without impacting on the technical safety of its installations and equipment.

The eligible consumer choosing to be an interruptible consumer is obliged to conclude a contract for the provision of interruptible services of natural gas transport through the NTS.

Based on the two framework agreements approved by the Decisions mentioned above (in force starting 1 July 2006), the Issuer concluded the contracts for natural gas transport services for the gas year 2006-2007.

Based on the same framework agreements, the Issuer concluded the contracts for the provisions of natural gas transport services with capacity reservation in the NTS / contracts for the provision of natural gas interruptible transport services for the gas year 2007-2008 (in force during the period 1 July 2007 – 30 June 2008).

#### *Approval by the Regulatory Authority of the validity terms of the License for natural gas transport*

The validity terms of the license for natural gas transport were approved by the Regulatory Authority's Decision no. 1362/2006. Based on it, the validity terms of the transport license held by Transgaz granted by Regulatory Authority's Decision no. 43/2001 were amended.

Details regarding the terms of the licenses specific to the natural gas sector held by the Issuer are included at Annex 6.

#### *Nabucco gas pipeline Project*

The Nabucco Project was initiated with the participation of five companies in the field, namely: BOTAS of Turkey, Bulgargaz of Bulgaria, Transgaz of Romania, MOL of Hungary and OMV Erdgas of Austria, with the purpose of connecting and turning into account the natural gas reserves in the Caspian Sea Area and Middle East with the European markets. Additional information on this project are included at Chapter VIII.2 – Description of the Issuer's main activities – paragraph Nabucco Project – the largest project related with the natural gas international transit activity

#### *Legal status of the Issuer*

From a corporate point of view, the Issuer is organised and carries out its activity according to the provisions of the Companies Law and its Articles of Association

Moreover, considering the main activities carried out, the Issuer is subject to the legislation specific to the regulated natural gas sector, which is structured in (i) primary legislation including the generally applicable principles and rules and (ii) secondary legislation, issued by the Regulatory Authority for the enforcement of primary legislation.

#### *Primary legislation applicable to the natural gas sector*

In terms of primary legislation, Gas Law no. 351/2004 is the main law regulating the natural gas sector. Some issues are completed by the Oil Law no. 238/2004, related to the natural gas sector as the natural gas is included in the definition of 'oil'.

Although, considering the express provision of Oil Law no. 238/2004, we can say that the Gas Law no. 351/2004 is the special law in the field, some issues, including the legal status of the concession of the natural gas public transport services and the goods related to the NTS, are regulated by the two laws at the same time.

Gas Law no. 351/2004 contains the principles of the legal framework necessary for carrying out the activities specific to the natural gas sector, in a competitive and transparent manner,

including issues regarding the policy in the natural gas field, regulatory authority, general provisions for the main activities in the natural gas sector, including natural gas transport and transit, authorisations and licenses, right to access natural gas transport and distribution systems, as well as to warehouses, new major natural gas infrastructures or direct main pipelines, obligations resulting from carrying out a public service, concession and rights over third parties' property, prices and tariffs in the natural gas sector.

According to the applicable legal framework, the natural gas transport is a public service of national interest, and the NTS is part of the state's public property, having a strategic importance. The works for achieving, rehabilitating, revamping, operating and maintaining the natural gas transport objectives/systems are public utility works.

With respect to the concession of the natural gas public transport service, as well as the goods related to the NTS, as a result of Oil Law no. 238/2004, ANRM is considered to be the competent authority for concluding oil agreements (administrative agreements regulating the terms for the concession of natural gas transport services and NTS related assets).

#### *Secondary legislation applicable to the natural gas sector*

The secondary legislation mainly includes Government decisions, orders of the competent ministry, at present the Ministry of Economy and Finance and decisions and orders issued by the Regulatory Authority.

Thus, some of the decisions issued by the Government significantly influencing Transgaz activity are Government decisions for the approval of:

- Regulation for granting authorisations and licenses in the natural gas sector,
- Regulation for accessing the natural gas National Transport System,
- Regulation regarding the access to natural gas distribution systems ,
- Regulation regarding the access to upstream supply pipelines,
- Market openness degree.

The orders and decisions of the Regulatory Authority mainly regulate specific aspects regarding the natural gas field, such as: framework agreements for the natural gas sector, approval of prices and methodologies for tariff calculation, technical regulations (performance standards, quality parameters of the services carried out in the natural gas field), procedures for mediating the pre-contractual misunderstandings in the natural gas field, procedures for supervising the natural gas market, as well as finding and sanctioning the breaches of the regulations applicable to the natural gas field.

The main laws defining the legal framework applicable to the natural gas sector where the Issuer operates are mentioned at Annex 2a. After the Issuer's shares are accepted to trading on the BSE, the Issuer will also have to comply with specific regulations mentioned at Annex 2b.

Details regarding some secondary regulations mentioned above are included at Annex 3

## **2. Share capital**

According to the Articles of Association and the registration in the Trade of Registered Office of 30 June 2007, the Issuer's subscribed and paid share capital amounts to RON 103,888,880, paid

in full by the shareholders, divided into 10,388,888 nominal shares with a value of RON 10 each. The book value of the shares is RON 103,888,880.

The Issuer's shares are part of the same share category, they are ordinary, nominative, indivisible, paid in full and issued in dematerialised form. The Issuer's shares give equal rights to their owners. Each share gives its holder the right to one vote in the General Shareholders Meeting, the right to elect and be elected in the management bodies and the right to take part in the distribution of benefits. According to Companies Law and the Issuer's Articles of Association, the right to vote is suspended until full payment of due amounts.

The Issuer states that, as of 30 June 2007, there are no Issuer's share in connection to which the right to vote is suspended.

The shareholding structure as of 30 June 2007 is the following:

No.	Name of the shareholder	Number of shares	Total nominal value (RON)	Participation in the share capital
1	Romanian State, through the Ministry of Economy and Finance	8,831,840	88,318,400	85.012371 %
2	S.C. Fondul Proprietatea S.A.	1,557,048	15,570,480	14.987629 %

Source: Certificate of findings no. 125597 issued by the National Register of Commerce Office on 12 July 2007.

The Issuer's initial share capital was established by taking over a part of the assets and liabilities of SNGN Romgaz, based on the balance sheet elaborated as of 31 December 1999.

Subsequently, the share capital was decreased by transmitting to ANRGN some fix and current assets and subsequently increased following the re-evaluation of some tangible assets and by the contribution in kind consisting in the land for which the Ministry of Industry and Resources and the Ministry of Economy and Commerce issued ownership certificates.

The Issuer states that, as of 30 June 2007, the value of the share capital paid in kind does not exceed 10% of its share capital.

The Issuer's share capital is to be increased by the value of the pieces of land obtained or to be obtained by the Issuer based on ownership certificates.

According to the provisions of Law no. 137/2002 regarding some measures for accelerating the privatisation, in the case of ownership certificates issued after privatisation, the share capital is rightfully increased by the value of the land, which shall be considered a contribution in kind of the state, in exchange for which additional shares will be issued. These will automatically be held by the public institution involved (in this case, the Ministry of Economy and Finance).

According to the recent amendments to Law no. 247/2005, as a result of such share capital increase operations, a number of newly issued shares will be transferred to Fondul Proprietatea so that the stake of this fund in the Issuer's share capital does not decrease.

According to Law no. 137/2002 regarding some measures for accelerating the privatisation, in case the share capital is increased by the value of the land after the privatisation of the company, the buyer or its successor in title has a preference right to buy from the public institution involved a number of additional shares necessary for maintaining the stake in the share capital that existed prior to its increase by the value of the land. This right will be exercised within 15 days after the date on which the share capital increase is registered, while the purchase price for

the additional shares resulted from the share capital increase by the value of the land, in case the preference right is exercised, is equal to the nominal value of the share if the price per share paid by the buyer in the initial privatisation contract is higher than the nominal value of the shares.

The Issuer has not increased the share capital by the value of 14 ownership certificates, the estimated value of which is of RON 46,331.

The Issuer has initiated the procedures for obtaining other ownership certificates for a number of 56 locations and, respectively, for elaborating the topographical-cadastral documentations in order to begin other procedures for obtaining ownership certificates for a number of 92 pieces of land. After these certificates are obtained, the issuer will increase its share capital by the value of the land. As the procedure is at the beginning, we do not have enough data to make a value estimate, although the Issuer considers that the impact on the share capital will not exceed 1%.

According with the Shareholders Decision no. 12/17 October 2007, the necessary operations for a share capital increase with the value of some property for which the Issuer obtained or it will obtain property documents, is postponed until the shares are admitted to trading on BSE

According to the Issuer's statement, there are no Shares that do not represent the capital.

The Issuer states that there are no shares held by it or by its subsidiaries in its name.

The Issuer states that there are no securities convertible into Issuer's shares, excepting the Allotment Rights issued in accordance with Shareholders General Meeting's Decision no. 11/17.10.2007, completed by Decision no. 14/2007 according to the NSC note no. 53/31.10.2007, there are no agreements regarding transferable securities, accompanied by subscription rights and no special acquisition rights or obligations are recorded in connection to the authorised but not issued capital and there is no commitment to increase the share capital, except for (i) the obligation to increase the share capital by the value of 14 plots of land for which ownership certificates were obtained and that were not included in the Issuer's share capital; and (ii) the obligation of the Ministry of Economy and Finance to grant shares to entitled persons, out of the Issuer's available share capital, as repair measure according to Law no. 10/2001. For this purpose, the Ministry of Economy and Commerce (currently Ministry of Economy and Finance) published in 2004 an offer for privatisation through restitution, including a share of 5% of Transgaz share capital.

According to the Issuer's statements, there is no information regarding the share capital of Resial SA, one of the issuer's branches, subject to an option or a conditioned or unconditioned agreement stipulating the grant of some options over the capital or details regarding the respective options. At present, Resial SA is undergoing the bankruptcy procedure.

With respect to the existence of such options or conditioned agreements regarding the share capital of companies active in the natural gas sector in which the state holds shareholding and, therefore, may be considered as included in the Issuer's group, these do not have a direct impact on the control of the Romanian State on the Issuer.

#### *Summary evolution of the changes in the Issuer's share capital*

Upon its establishment, the Issuer's share capital was of ROL 220.449.570.000, fully paid in, divided into 2.204.495 shares with a nominal value of ROL 100.000 each. Annex 8 contains a summary evolution of the company's share capital.



### 3. Main shareholders

85.012371% of the Issuer's share capital is owned by the Romanian state, represented by the Ministry of Economy and Finance. The rest of 14.987629% is owned by Fondul "Proprietatea" S.A. whose main shareholder is the Romanian state until the shares held by the state are transferred to the people to be indemnified according to the law.

#### *Fondul "Proprietatea"*

According to Title VII of Law no. 247/2005 regarding the reform of ownership and justice, as well as some related measures, as subsequently amended and completed, it was decided to establish, by means of a government decision, an entity for collective placement in securities named Fondul "Proprietatea"<sup>2</sup>. The purpose of Fondul "Proprietatea" is to ensure that payments are made in equivalent for the indemnities related to the claims resulted from the enforcement of art. 32 of Law no. 10/2001 regarding the legal status of some buildings taken over abusively during 6 March 1945 – 22 December 1989, as republished, and of the indemnities related to the buildings taken over abusively by the Romanian state in the reference period included in the following regulations:

- Law no. 10/2001
- Government Emergency Ordinance no. 94/2000 regarding the retrocession of some real estate assets that belonged to religious cults in Romania, as subsequently amended and completed, approved with amendments and subsequent completions by Law no. 501/2002;
- Government Emergency Ordinance no. 83/1999 regarding the return of some real estate assets that belonged to communities of citizens part of the national minorities in Romania, approved with amendments by Law no. 66/2004, as subsequently amended.

Fondul Proprietatea was established as an entity for collective placement in securities, in the form of a financial investment company, which will operate according to the provisions of Capital Market Law and Companies Law, initially fully owned by the Romanian state, as sole shareholder, until the shares owned by the state are transmitted to the individuals indemnified according to Law no. 247/2005. It is registered at the Register of Commerce Office of Bucharest Court hall according to the provisions of the Government Decision no. 1481/2005.

The initial share capital of Fondul Proprietatea is made up of a series of assets mentioned in Law no. 247/2005, including a stake representing 15% of the Issuer's share capital as of that date.

Fondul Proprietatea was registered as shareholder of the Issuer at the Trade of Registered Office on 27 March 2006, with a stake of 1,557,048 shares, with a total nominal value of RON 15,570,480, representing 14.996074% of the share capital.

Fondul Proprietatea is to be managed by a management company. Until this company is appointed, it is managed by the Ministry of Public Finance, through the Supervision Council, the members of which will be appointed through the order of the minister of public finance.

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<sup>2</sup> Title VII "Conditions for establishing and paying the indemnities related to abusively taken over buildings" of Law no. 247/2005 provides for the establishment of Fondul Proprietatea, its initial share capital being formed of assets previously held by the Ministry of Economy and Commerce and the Office for State Ownership and Industry Privatization, the Ministry of Public Finance, the Ministry of Communications and Information Technology, Authority for State Assets Recovery in some companies.

*People entitled to indemnities who subscribed during the offering of shares available before the enforcement of Law 247/2005.*

According to the Government Decision no. 498/2003 (for the approval of the methodological Norms for the consistent enforcement of Law no. 10/2001), the Ministry of Economy and Finance was obliged to grant to the entitled persons, as an equivalent reparatory measure, shares in the available share capital of Transgaz.

In 2004, the Ministry of Economy and Commerce – Office for State Participations and Industry Privatizations – published an offering for privatization by return, including a stake of 5% of Transgaz share capital.

The Issuer does not hold the list of the entitled people who would have subscribed within the offering published on the date on which Law no. 247/2005 entered into force. The Issuer states that, if such subscription had taken place, the entitled people would have benefited from shares within the reserved and subscribed quota. This 5% stake of Transgaz share capital would affect the State's participation and not the Offered Shares.

According to the Issuer's statements, there is no person having the quality of member of any of the Issuer's administration, management and supervision bodies who owns, directly or indirectly, a percentage of the Issuer's share capital or rights to vote, who should be notified according the internal legislation applicable to the Issuer.

According to the Issuer's statements, the Issuer's main shareholders do not have different voting rights.

According to the Issuer's statement, there are no agreements known to the Issuer the application of which may generate, at a subsequent date, a change in the control over the Issuer.

#### **4. Articles of Association and Bylaws**

##### ***Object of activity***

According to art. 5 of the Articles of Association, the Issuer's purpose is to carry out the national strategy regarding natural gas transport, international transit, dispatch and research-design activities in the field of natural gas transport.

According to the provisions of art. 6 of the Articles of Association, Transgaz main object of activity is pipeline transport – CAEN Code 6030.

In addition, the Issuer may carry out, as per art. 6 of the Articles of Association, a series of secondary activities – see Annex 5 for the List of activities contained in the Issuer's object of activity.

##### ***Board of Directors***

The Board of Directors carries out its activity based on its own rules of organisation and functioning, the provisions of the Articles of Association and the legal regulations in force.

##### **Appointment**

According to the provisions of the Articles of Association, the members of the Board of Directors are elected by the ordinary General Meeting for a 4-year mandate.

Upon the request of a significant shareholder representing 10% of the share capital or voting rights, the members of the Issuer's Board of Directors will be compulsorily elected by applying the cumulative vote method.

The Board of Directors is made up of 5 members.

Based on the decision of the General Meeting no. 2/2005, the members of the Board of Directors receive a monthly remuneration equal to 20% of the general manager's salary. The Issuer has not concluded mandate or administration agreements with the members of its Board of Directors. The latter carry out their activities according to the mandate granted following the appointment by the General Meeting and the Companies Law.

#### Duties

The main duties of the Board of Directors as per the Articles of Association are presented at Annex 9.

#### Convening the Board of Directors

According to the provisions of the Articles of Association, the Board of Directors gathers at the Issuer's headquarters or another location, whenever necessary but at least once every 3 months.

The meetings of the Board of Directors will be convened by a notice sent at least 7 days before the scheduled date. The notice period will not include the transmission date and the date on which the meeting is scheduled.

According to the provisions of the Articles of Association, the Board of Directors may be convened:

- the president of the Board of Directors;
- two members of the Board of Directors or the general manager.

In the last case, the motivated request for convening of the two members or the general manager will be sent to the president of the Board of Directors, who will be obliged to take it into account.

#### Quorum and majority

According to the provisions of the Articles of Association, in order to validate the decisions of the Board of Directors it is necessary that at least two thirds of the number of members be present, while decisions are taken with the majority of the members present.

The Articles of Association stipulates a quorum requirement for Board of Directors meetings (higher than the one provided by the Companies Law), namely a quorum of half the members of the Board of Directors.

According to Companies Law, decisions regarding the appointment or revocation of the president of the Board of Directors are taken based on the vote of the majority of the board's members, as the provisions of the Articles of Association are completed by the ones of the Companies Law.

#### Delegation of the Issuer's management

According to Companies Law, in case of joint stock companies the yearly financial statements of which must be audited, there is an obligation of delegating the company's management to

managers. See Annex 9 and Annex 10 for more details on competence delegation within the Issuer.

#### General manager

According to the provisions of the Articles of Association, the general manager is appointed by the Board of Directors, out of its members or not.

At present, the general manager of Transgaz is Mr. Ioan Rusu. The general manager and Transgaz concluded an individual employment agreement and a performance agreement on 21 June 2007 attached to the individual employment agreement, through which he commits himself to some performance objectives. According to the Company Law the employment contracts signed by directors and by managers are lawfully terminated.

According to the information received by the issuer from the ministry of Economy and Finance, a new mandate/administration agreement is being elaborated; it will be concluded with the issuer's general manager.

The main duties of the general manager, as per the Articles of Association, are presented at Annex 10.

According to the provisions of the Articles of Association, the Board of Directors, according to its rules of organisation and functioning, may delegate part of its responsibilities to the general manager.

Executive managers are appointed by the general manager and are subordinated to him/her.

#### Regional managers

Regional managers are appointed and revoked by the Issuer's general manager. Regional managers are subordinated to the department manager and are the Issuer's officers, they carry out its operations and are liable for complying with their tasks and responsibilities assigned to them.

The main duties of regional managers, as per the Issuer's Rules of Organisation and Functioning, are presented at Annex 11.

#### Executive managers

Executive managers are appointed by the general manager and are subordinated to him/her, they are the Issuer's officers, they carry out its operations and are liable for fulfilling their duties under the same conditions as the members of the Board of Directors.

Executive managers are suspended or revoked by the Issuer's general manager.

The main duties of executive managers, as per the Issuer's Rules of Organisation and Functioning, are presented at Annex 12.

Executive managers are liable for carrying out all tasks resulting from the application of the decisions of the General Meeting and the Board of Directors.

#### Financial audit and internal audit

According to the provisions of the Articles of Association, the Issuer's financial statements are audited by a financial auditor, according to the law. The auditing of the Issuer's financial

statements is mandatory because the Issuer complies with the criteria established according to the provisions of the Order of the Ministry of Finances no. 1752/2005 regarding the legal obligation of performing an audit.

The Issuer has concluded services contracts with PricewaterhouseCoopers Audit SRL for the provision of audit services regarding the Issuer's financial statements for the periods ended on 31 December 2003, 31 December 2004, 31 December 2005 and 31 December 2006. The mandate of PricewaterhouseCoopers Audit SRL as the Issuer's auditor expires on 31 August 2007. After this date, the decision of the General Meeting no. 6/27 April 2007 approved the conclusion of a contract for the provision of financial audit services for a new period of 3 years (namely for the financial years 2007, 2008 and 2009) with PwC.

According to the provisions of the Companies Law regarding companies subject to audit, the Articles of Association stipulate that internal audit will be organised within Transgaz, according to the rules elaborated by the Romanian Chamber of Financial Auditors.

According to Transgaz Rules of Organisation and Functioning, the internal audit department ensures the compliance with the tasks falling on Transgaz as a result of its own programs regarding the objective examination of all of the Issuer's activities in order to make an independent assessment of risk management, control and management processes. The internal audit is performed for all the activities carried out by the Issuer, including the activity of subordinate entities (branches, regional offices) regarding the constitution and use of public funds, as well as the administration of the public patrimony.

At the reference date, there were some vacancies in the internal audit department., which might have affected the Issuer's internal control and other activities that, according to the law, require the control or approval of the internal audit department. Later the vacancies in the internal audit department were filled.

The main duties of the internal control department, as per the Rules of Organisation and Functioning, are presented at Annex 13.

### ***Description of the rights and restrictions applicable to each class of the Issuer's shares***

All the Issuer's shares are part of the same class, being ordinary shares.

According to Companies Law, these offer their shareholders the same rights, such as the right to participate and vote at General meetings, the right to elect and to be elected in the Issuer's management structures, the right to profit and excess distribution after the liquidation procedure, as well as in share capital increases, the preference right, in case of share capital increases, the right to allocate free shares, in case of share capital increases out of internal resources, the right to be informed, the right to bring to court the decisions of the General Meetings or of the Board of Directors made based on authority delegation, the right to decide the conclusion of legal documents involving a significant part of the Issuer's resources, the right to inform the auditors about the facts they think that should be checked, the right to withdraw in the cases precisely provided by the law.

In addition, depending on the contribution to the share capital, shareholders also have other rights such as: the right to request reports, to right to request the carrying out of studies, the right to convene and modify the agenda of general meetings, the right to claim damages from the members of management and control bodies, the right that the claim notified to the auditors be

checked. Details regarding shareholders' rights are included at Chapter XIV, Section – Information regarding the securities to be offered / admitted to trading.

In order to change the shareholders' rights set forth in the Articles of Association, it is necessary that the extraordinary General Meeting adopts a decision amending the Articles of Association accordingly, based on the quorum and majority conditions presented below.

Its decisions are approved based on the majority of votes held by shareholders present or represented at the meeting, but no less than the votes of shareholders representing at least half of the share capital upon the first call or the votes of shareholders representing at least one third of the share capital upon the second call.

It should be mentioned that the Articles of Association contains stricter quorum and majority conditions for making the decisions regarding the amendment of the Articles of Association than those included in Companies Law, namely a quorum of at least one quarter of the total number of votes at the first call, and of at least one fifth of the total number of votes at the subsequent calls. The decisions will be made based on the majority of votes held by present or represented shareholders.

#### General Shareholders Meeting

According to the provisions of the Companies Law, the Issuer's shareholders gather in general meetings, according to the terms included in this law and the Issuer's Articles of Association.

The general meeting is the management body deciding on the Issuer's activity and economic policy.

The general shareholders meetings are ordinary and extraordinary, each of them having specific duties, presented at Annex 14 and Annex 15.

According to the provisions of the Companies Law, the general meeting will be convened by the board of Directors whenever necessary. The ordinary general meeting gathers at least once a year, within maximum 5 months from the end of the financial period.

#### Convening general meetings

The general meeting is convened based on the decision of the Board of Directors whenever necessary, namely based on the request of shareholder representing, separately or jointly, at least 5% of the share capital if the request contains issues falling under the duties of the General Meeting.

According to the provisions of the Articles of Association, the convening notice will contain, among others, the place and date of the general meeting, as well as the agenda. When the agenda contains proposals for the amendment of the Articles of Association, the convening notice will have to include the full text of the proposals.

According to the provisions of the Articles of Association, the convening notice must be published at least 30 days prior to the date of the general meeting. The general meeting gathers at the Issuer's headquarters or at any other location mentioned in the convening notice.

#### Quorum and majority requirements. Exercising the right to vote at General Meetings

According to the provisions of the Articles of Association, the ordinary general meeting is valid and may make take decisions if, at the first call, shareholders holding at least half of the share

capital are present. At the second call, the meeting is valid irrespective of share capital represented by the shareholders present.

If the ordinary general meeting is validly gathered, its decisions are approved based on the majority of the votes (half plus 1).

The extraordinary general meeting is valid and may make decisions if, at the first call, shareholders holding at least three quarters of the share capital are present and if, at the second call, they represent at least half of the share capital.

If the extraordinary general meeting is validly gathered, its decisions are approved based on the majority of the votes held by present or represented shareholders, but no less than at least half of the share capital at the first call or the vote of shareholders representing at least one third of the share capital at the second call.

Generally, the provisions of the Articles of Association described above contain quorum and majority requirements more restrictive than the ones included in the Companies Law.

In these cases, the Companies Law allows more restrictive quorum and majority requirements.

By exception to the above, according to the Articles of Association, certain decisions of the General Meeting are made under special conditions, as follows:

- decisions regarding changes to the Issuer's main object of activity, share capital decrease or increase (except for the ones regarding share capital increase by contribution in kind), changing the Issuer's legal form, merger, split or dissolution of the Issuer, for which decisions are made with a majority of at least  $\frac{2}{3}$  of voting rights held by present or represented shareholders; these provisions are consistent with the provisions of the Companies Law;
- decisions regarding the annulment of the preference right of existing shareholders to subscribe new shares in case of share capital increase by contribution in cash and in kind are made within meetings at which at least  $\frac{3}{4}$  of the number of share capital holders are present, based on the vote of shareholders representing at least 75% of total voting right, unless otherwise provided by the law; these provisions are similar to the ones included in the Capital Market Law that will apply to the Issuer after the shares are accepted to trading on the BSE.

According to the provisions of the Articles of Association, the decisions of the general meetings are made by open vote.

According to the provisions of Companies Law, secret vote is compulsory for the appointment or revocation of the members of the board of directors, the appointment or revocation of financial auditors and for making decisions regarding the liability of the members of the Issuer's administration, management and control bodies.

In order to be opposable to third parties, the decisions of the General Meeting will be registered at the Trade of Registred Office within 15 days, in order to be recorded in the register and published in Romania's Official Gazette of Romania, Part IV.

The decisions made at general meetings according to the law or the Articles of Association are mandatory even for the shareholders who did not attend the meeting or who voted against.

The shareholders who did not vote in favour of a decision made by the general meeting regarding the amendment of the object of activity, moving the Issuer's headquarters above, changing the legal form or the Issuer's merger or split have the right to withdraw themselves. The price paid by the Issuer for the shares of the withdrawing shareholder will be determined by an independent authorised expert as an average value resulting from the application of at least two assessment methods acknowledged by the legislation in force on the assessment date.

After Transgaz shares are admitted for trading on a regulated market, its shareholders who do not agree with the decisions made by the general meeting regarding mergers or splits, which involve the allocation of shares that are not admitted for trading on a regulated market, have the right to withdraw. According to the provisions of the Companies' Law and Capital Market Law, the price paid by the Issuer for the shares of the withdrawing shareholder will be determined by an independent authorised expert as an average value resulting from the application of at least two assessment methods acknowledged by the legislation in force on the assessment date.

#### Participation at the General Meeting

The interests of the Romanian state, as shareholder, in the General Meeting are represented by the Ministry of Economy and Finance (or its successors). The representative of the Romanian state in the General Meeting is appointed and revoked by the order of the Ministry of Economy and Finance. The representative's right to vote at the general meeting will be exercised based on a special mandate granted by the order of the Ministry of Economy and Finance.

After Transgaz shares are accepted to trading on BSE, it will be possible for other shareholders than the state to be represented in the General Meeting, based on a special power of attorney granted for the respective General Meeting, by other persons than shareholders except for the members of the board of directors, Transgaz managers and officers, according to the regulations of the NSC.

After the shares are accepted to trading on BSE, according to the Capital Market Law, shareholders registered on the reference date may participate in the General Meeting. According to the provisions of the Articles of Association, the reference date is subsequent by at least 4 work days to the date on which the convening notice for the General Meeting is published in press and prior to the deadline by which special powers of attorney may be submitted/transmitted to the Issuer.

#### Ordinary General Meeting – duties

The main duties of the Ordinary General Meeting as per the Articles of Association are presented at Annex 14.

#### Extraordinary General Meeting – duties

The main duties of the Extraordinary General Meeting as per the Articles of Association are presented at Annex 15.

The Extraordinary General Meeting may delegate to the Board of Directors the following duties, according to the law and the Articles of Association:

- a) to change the company's registered office;
- b) to change the secondary object of activity; and
- c) to increase the share capital.



The Articles of Association do not contain provisions that may lead to the postponement, suspension or prevention of changing the control on the Issuer.

The Articles of Association and the Issuer's internal regulations do not include provisions regarding a limit over which participations to share capital must be made public.

#### Changes to share capital

According to the provisions of the Articles of Association, share capital increases or decreases are made based on the decision of the extraordinary general meeting. The extraordinary general is validly gathered and may make decisions if, at the first call, shareholder holding at least three quarters of the share capital are present and, at the second call, shareholders holding at least half of the share capital are present.

If the extraordinary general meeting is validly gathered, its decisions are approved based on the majority of votes of present or represented shareholders, but no less than the votes of a number of shareholders representing at least half of the share capital at the first call or the votes of shareholders representing at least three third of the share capital at the second call.

According to the Articles of Association, share capital increase or decrease is carried out based on the Companies Law.

Under the same circumstances, the extraordinary general meeting may authorise the Board of Directors to increase the share capital up to a maximum level decided by the meeting, which will not exceed half of the subscribed share capital existing on the authorisation date. The delegation granted by the extraordinary general meeting for this purpose cannot exceed one year and may be renewed for periods that will not exceed one year.

According to the Articles of Association, the contribution in kind to the Issuer's share capital increase may be formed only in valuable assets necessary for carrying out the latter's object of activity.

These quorum and majority provisions for making decisions by the general meeting are more restrictive than the ones stipulated in the Companies Law.

According to the provisions of the Articles of Association, in case of share capital increase by contribution in cash, the cancellation of the existing shareholders' right to subscribe new shares must be decided by the extraordinary general meeting at which at least three quarters of the number of share capital holders are present, based on the vote of shareholders holding at least 75% of the voting rights.

Moreover, the share capital increase by contribution in kind must be approved by the extraordinary general shareholders meeting. At least three third of share capital holders should be present at such a meeting. The decision will be taken by at least 75% of the voting rights.

These provisions are more restrictive than the ones included in the Companies Law, but comply with the quorum and majority requirements provided by the Capital Market Law, which will apply after the Issuer's shares are admitted for trading.

The express provisions described above apply in case the preference right of the existing shareholders to subscribe new shares within a share capital increase through contribution in cash and in kind is cancelled. In other cases, the Articles of Association provide that the share capital increase will be made according to the law.

## 5. Issuer's branches

As of 30 June.2007, Transgaz was formed of two branches:

- Branch for Natural Gas Transport;
- Branch for Research and Design for Natural Gas Transport;

According to the decision of the Extraordinary General Meeting no. 9/26 July 2007, the two branches were dissolved. As of 31 August 2007 the Issuer has no branches.

At the same time, upon Transgaz formation, the National Gas Dispatcher Bucharest was set up and registered at the register of Commerce Office as business unit. According to the decision of the Extraordinary General Meeting no. 9/26 July 2007, the National Gas Dispatcher Bucharest was reorganised as Natural Gas Dispatcher Bucharest. At the same time the the National Gas Dispatcher was located at Medias.

Subsequently, other two secondary seats were registered, used as office area and Training Centre.

719 business units related to Natural Gas Transport Branch were also registered with the register of Trade of Registered Office. The functioning of most of them was only notified to the Trade of Registered Office Office, but these were not registered individually. The main reason is the pending legal status of the land on which the respective business units are located, as well as the status of certain business units belonging to third parties but that are functionally linked to the NTS.

At present, the Issuer is in the process of registering the business units with the Trade of Registered Office following the reorganisation by dissolution of the branches according to the decision of the Extraordinary General Meeting no. 9/26 July 2007.

The Issuer states that the tax registration for 220 business units was requested and obtained, namely those considered by the Issuer to be business units as per the definition included in the Methodological Norms for the enforcement of the provisions of art. 30, par. (4), (5), (6) and (7) of the State Budget Law for the year 2001 no. 216/2001, while for 553 business units that, according to the issuer's opinion, carry out activities triggering environmental authorisation, such authorisations have been obtained.

At present, the Issuer comprises regional units, namely (i) the Operation Department comprises 9 regional units for natural gas transport (Arad, Bacau, Braila, Brasov, Bucharest, Cluj, Constanta, Craiova, Medias) (ii) the Natural Gas Transit Department comprises the regional transit unit Constanta.

Regional units for natural gas transport are operative units, organised in terms of geographical location, in charge, within their respective area, with carrying out the technological process of operation, transport, dispatch, exploitation of the main pipelines systems and the related installations, the relationships with suppliers and consumers.

## 6. Issuer's subsidiaries and participations

The Issuer has only one subsidiary, namely Resial S.A., where it holds an interest of 68.158110% of the share capital.

The Issuer's financial investments comprise the shares owned in affiliated entities, loans granted to affiliated entities, participation interests, loans granted to entities to which the Issuer is related by virtue of participation interests, as well as other investments held as fixed assets. They are registered in the balance at their net value, adjusted with the provisions made for the participations obtained as a result of the foreclosure of some pledges.

As of 30 June 2007, the issuer holds participations in the following companies: Resial S.A., Mebis S.A. Bistrita, Wirom Gas S.A. and Nabucco Gas Pipeline International GmbH.

Company	Object of activity	Percentage held on 30.06.2007	Value as of 31 December 2004	Value as of 31 December 2005	Value as of 31 December 2006	Value as of 30 June 2007
		(%)	(Ron thousand)	(Ron thousand)	(Ron thousand)	(Ron thousand)
Resial SA	Fireproof ceramics products	68.158110%	18,116	18,116	18,116	18,116
	Depreciation provision		-18,116	-18,116	-18,116	-18,116
Mebis SA Bistrita	Metallic structures and complex welded assemblies, hydraulic assemblies and products	17.466700%	6,462	6,462	6,461	6,461
	Depreciation provision		-6,462	-6,461	-6,461	- 6,461
Wirom Gas SA	Gas import, building of pipelines and underground storage facilities	0.0249%	1	2	3	3
Nabucco Pipeline Company	Development of Nabucco gas pipeline	20%	28	28	24	24
Credit and Development Bank Romexterra SA	Bank	0	1,158	1,158	0	0

Source: IFRS compliant financial statements, except for Nabucco Gas Pipeline International GmbH, presented based on Management Reports

The participation in SC Resial SA (68.158110%) was obtained in December 2003 through the direct foreclosure of a pledge for the recovery of a trade receivable from Caloni Serv Com Azuga. In February 2004, the Issuer initiated the preparation of an offering for sale, according to the law, in order to decrease the participation by 35.16% of Resial SA shares. Because this offering had no result until 31 December 2005, the participation in Resial SA was classified as "Investments in subsidiaries" and was provisioned in full. The Issuer considers it is prudent to

maintain the provision also as of 31 December 2006 as the company Resial SA is undergoing a bankruptcy procedure, for insolvency reasons.

As of 30 June 2007, the bankruptcy procedure in Resial S.A. was not completed.

The detailed identification elements of the Issuer's subsidiary are presented at Annex 18.

The Issuer states that it is not in any of the cases included in the Tax Procedure Code that would trigger the joint responsibility of Transgaz together with Resial SA for past due tax obligations of the latter.

The participation in SC Mebis SA Bistrita (17.466700%) was obtained in February 2004 following the foreclosure of a pledge for recovering a trade receivable of RON 6,461,736 from SC Caloni Serv Com Azuga. The company's management provisioned in full this financial asset as of 31 December 2005 and 31 December 2006 as this company has not distributed dividends in the last 5 years and no transactions with its shares were recorded, the last ones being concluded below the nominal value per share.

As of 30 June 2007, the Issuer's participation in the share capital of Wirom Gas S.A. was of 0.024900%

The Issuer obtained the participation in Wirom Gas S.A. upon its establishment, back in 2000, as a result of the distribution between the newly established companies of the participations owned by SNGN Romgaz in the share capital of other companies.

As of 31 December 2003, the Issuer held 49.97% of Wirom Gas S.A. shares, a company formed together with Wintershall Erdgas Handelshaus GmbH. In February 2004 the Issuer assigned 40% of Wirom Gas SA shares to Distrigaz Sud SA, and did not obtain any profit or loss. During the financial year ended on 31 December 2006, the Issuer has not participated in the share capital increase of Wirom Gas SA, its share being thus reduced from 9.97% to 0.0249%.

As of 30 June 2007, the Issuer's participation in Nabucco Company Pipeline Study GmbH is of 20% of the share capital.

Nabucco Company Pipeline Study GmbH is a limited liability company, with headquarters in Vienna, Austria, established in order to facilitate the construction of a gas pipeline from Turkey through Bulgaria, Romania and Hungary to Austria.

Transgaz participates with 4 other shareholders in the share capital of this company, each holding a participation of 20% of the share capital.

In 2006, the Issuer sold the shares held in Banca de Credit si Dezvoltare Romexterra S.A. (in 2005 it held 0.57%) totalling RON 1,241 thousand to PPF Investments for the amount of RON 2,218,752 Lei. The value of the participation in Banca de Credit si Dezvoltare Romexterra S.A. of RON 1,241 thousand at the time of sale is formed of the balance of RON 1,158 thousand of 31.12.2005 and the increase registered in 2006 of RON 83,203 following the distribution of shares by Banca de Credit si Dezvoltare Romexterra S.A..

Following this sale, the net value of the issuer's participations as of 30 June 2007 and 31 December 2006 is of RON 26,929 thousand, down by RON 1,161 thousand as compared to their balance at the beginning of 2006 financial period.

## 7. Organisational chart of the Issuer's group

According to the provisions of Capital Market Law, one may consider that the companies in which the Romanian state has interests may be considered as controlled by it and, therefore, these may be related parties in relation to the issuer.

Therefore, we may consider that the following companies carrying out activities in the natural gas sector are included in the same group as the Issuer:

*State's participations in the companies mentioned:*

Company	Main activity in the natural gas sector	Stake held by the state
Distrigaz Sud SA	Natural gas distribution and supply	36.999995%
E.ON Gaz Romania SA	Natural gas distribution and supply	37.00%
E.ON Gaz Distribuție SA	Natural gas distribution and supply	37.00%
Petrom SA	Natural gas exploration, extraction and supply	20.63%
SNGN Romgaz	Natural gas production, underground storage and trading	85.00%

*Source: AVAS, MEF*

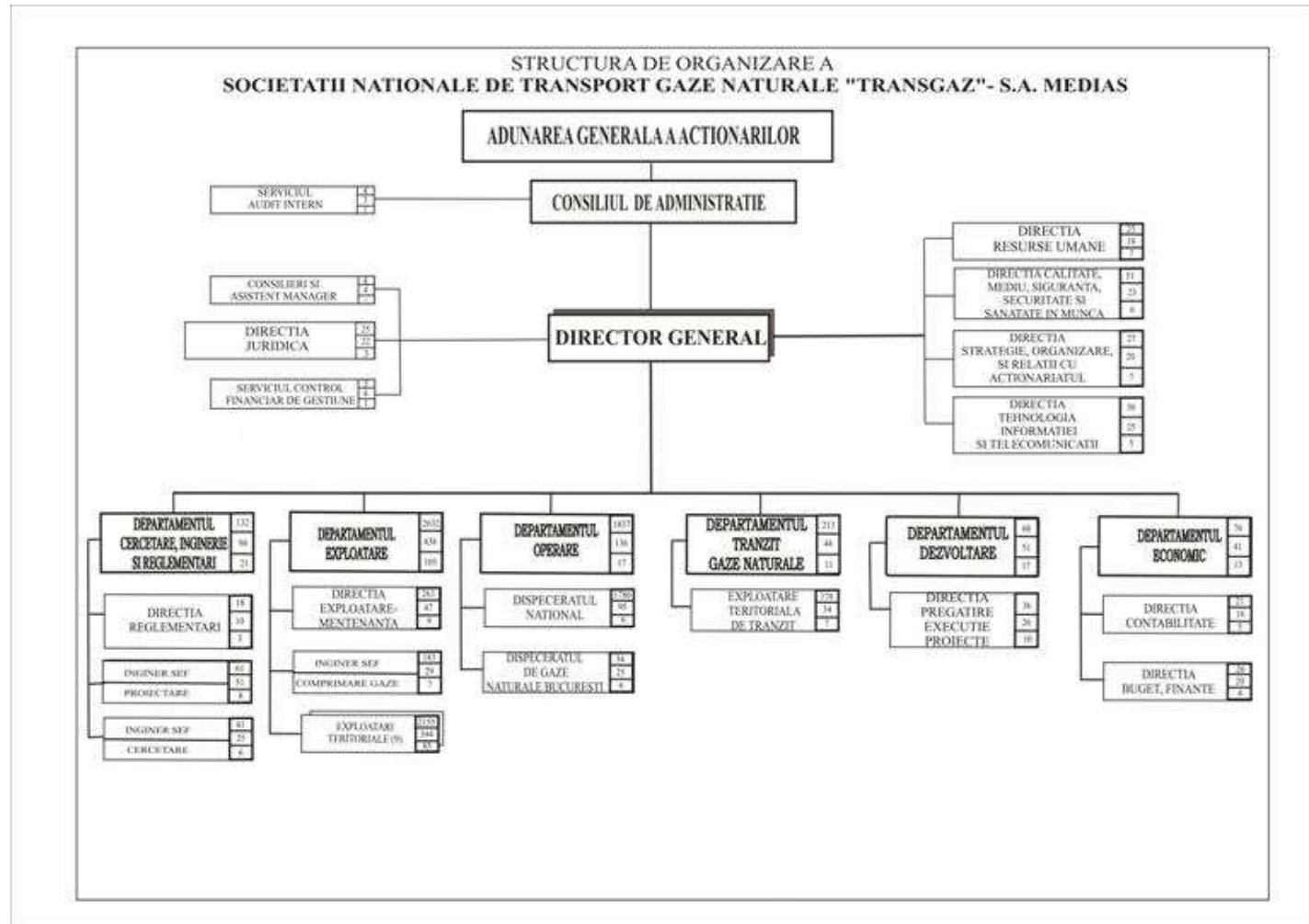
The Issuer does not consider related parties other national companies in which the state holds majority interests.

Please consider also the Chapter IX – Information about the Issuer, Part 6 Issuer's subsidiaries and participations.

**X. ISSUER'S ADMINISTRATION, MANAGEMENT AND SUPERVISION BODIES, OTHER RELEVANT INFORMATION REGARDING THE ISSUER**

**1. Administration, management and supervision bodies**

The Issuer's organisational structure is presented in the diagram on the following page.



The current nominal structure of the Board of Directors and the duration of the mandate of each member are presented in the table below:

**Current Structure of the Board of Directors**

No.	Name	Quality	Appointment date	Mandate expiry date
1	Elena Ianda	Director	12.04.2005	12.04.2009
2	Constatin Zidaru	Director	26.07.2007	27.03.2009
3	Ioan Rusu	Director, General manager	27.03.2007	27.03.2009
4	Nicolae Simescu	Director	22.01.2007	12.04.2009
5	Nicolae Turdean	President of the Board of Directors	27.03.2007	27.03.2009

Source: *Transgaz, Management Reports*

According to the statements of relevant persons the Issuer states that:

- a) there are no family relations between none of the members of administration, management or supervision bodies and no management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity,
- b) none of the members of administration, management or supervision bodies and no management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity was member of an administration, management or supervision body or partner associate during the last 5 years in a company or partnership, except for: Mr. Zidaru Constantin, member of the Board of Directors of Rodmir Expert S.R.L. Bucuresti and Rodmir Gaz S.R.L. Bucuresti, position he still holds.
- c) none of the members of administration, management or supervision bodies and no management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity was convicted for fraud in the last five years;
- d) none of the members of administration, management or supervision bodies and no management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity, in such a quality was associated with a bankruptcy procedure, distress or liquidation, during the last five years;
- e) none of the members of administration, management or supervision bodies and no management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity was convicted or no sanction was issued against such a person according to the applicable regulations by statutory or regulatory authorities (including the appointed professional bodies),
- f) none of the members of administration, management or supervision bodies and no management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity was ever refrained by a court to act as member of an administration, management or supervision body of



an Issuer or to get involved in the management or business of an issuer in the last five years,

- g) none of the members of administration, management or supervision bodies and no management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity carries out activities, outside the Issuer, that are significant for the Issuer,
- h) there is no understanding and agreement concluded with any of the main shareholders, clients, suppliers or other persons based on which (i) a member of administration, management and supervision bodies any management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity obtained such a quality or (ii) the founding shareholder was elected member of an administration, management or supervision body.

#### ***I.14.2 Conflicts of interest within administration, management and supervision bodies***

According to the statements of relevant persons, the Issuer states that he does not have information regarding any potential conflict of interest between the obligations to the Issuer and private interest or other obligations of: (i) members of the administration, management and supervision bodies, (ii) person(s) from the Issuer's management whose name can be mentioned in order to prove that the Issuer has the necessary experience to manage its business or (iii) the Issuer's founder, except for the case mentioned below.

Thus, the Issuer mentions the existence of first degree family relationship between the ex Issuer's Deputy General Manager starting with 31 august 2007, Director of Research, Engineering and Regulations Department, Mr. Vlad Pavlovschi and Mr. Neculai Pavlovschi, a person with wide experience in the natural gas field, who is, at present, member of the Board of Directors of SNGN Romgaz, company with which the Issuer has commercial relations (contracts for sale- purchase of gas for technological consumption; contract for the provision of natural gas transport service for SNGN Romgaz). Mr. Neculai Pavlovschi does not hold any position within the Issuer.

According to the statements of relevant persons, there is no restriction regarding the assignment at a certain time of the participations in the issuer's share capital in which the following will be involved: (i) members of administration, management and supervision bodies), (ii) any management member whose name may be mentioned in order to prove that the Issuer has the necessary experience for managing its activity, or (iii) the founding shareholder.

#### ***Remunerations and Benefits***

Management structure:

##### **2005:**

- General Manager: Gabriel Coconea  
Florin Muntean
- Economic Deputy General Manager: Laurentia Goage
- Technical Deputy General Manager: Traian Juga Pintican

##### **2006:**

General Manager: Florin Muntean  
Economic Deputy General Manager: Laurentia Goage  
Technical Deputy General Manager: Traian Juga Pintican

**30 June 2007:**

General Manager: Ioan Rusu  
Technical Deputy General Manager: Liviu Traian Juga Pintican  
Technical Deputy General Manager: Vlad Pavloschi  
Finance Manager: Marin Dumitru

**31 August 2007:**

- General Manager: Ioan Rusu
- Research, Engineering and Regulations Department - Director, Pavlovschi Vlad
- Exploitation Department - Director, Lata Ilie
- Operation Department - Director, Chetan Ioan
- Natural Gas Transit Department - Director, Pintican Juga Liviu Traian
- Development Department - Director, Tomos Ioan Tudor
- Economic Department - Director, Moldovan Radu Costica

During the financial year 2006, no advances and loans were granted to the Issuer's directors and management, except for the advances from salaries and the ones for business trips, while they do not owe the to Issuer any amount resulted from such advances. The Issuer has not concluded professional liability insurance contracts for its management. The salaries paid to the Issuer's directors and management during the financial year 2006 were of RON 1,758 thousand, while in 2005 these amounted to RON 1,480 thousand and, during the first six months of the year, until 30 June 2007, they totalled RON 718 thousand.

For the Issuer's General Manager, Mr. Ioan Rusu, a performance contract was concluded on 21 June 2007 according to which he undertakes to achieve certain performance targets and to transmit monthly to the Ministry of Economy and Finance, General Budget Directorate, the economic and financial status of the economic operator, as well as the report regarding the compliance with investment and procurement programs. Beside the basic salary, the General Manager also has the right to receive monthly an amount equal to maximum 50% of the salary in the form of increments, bonuses, awards and other salary rights. At the same time, he can be granted a yearly award regarding the consolidation of the economic and financial discipline and other financial provisions of up to 6 monthly basic salaries, according to the Government Emergency Ordinance no.79/2001, regarding the strengthening of financial-economic discipline and other related financial issues, approved with amendments and completions by Law no. 59/2002. The maximum value of the yearly award is of 3 monthly salaries, granted if all the performance criteria and objectives are met, as well as the specific objectives decided by the Ministry of Economy and Finance and endorsed by the State Secretary coordinating the specific field of the economic operator.

The other members of the Board of Directors have not concluded performance contracts and are remunerated only based on the decision of the general meeting.

During 2006 financial year, the value of the remunerations/salaries and benefits in kind granted by the Issuer and its branches to the members of its management, administration and supervision bodies for the services they carried out is presented in the following table:

Nr. Crt.	Name	Position	Remunerations (Lei)	Time period - 2006
1	Schmidt Victor	Board Member	20,060	January – December
2	Muntean Florin	Board Member	18,060	January – December
3	Ianda Elena	Board Member	20,060	January – December
4	Pantilie Dan	Board Member	20,060	January – December
5	Apan Ioana	Board Member	6,124	September – December
6	Cozma Gheorghe	Board Member	13,545	January – December
7	Marica Anca	Board Member	3,828	January – February
8	Crecana Virgil	Board Member	10,108	February – August
9	Muntean Florin	Manager	120,295	January – December
10	Pintican Iuga Liviu	Deputy Manager	131,082	January – December
11	Goage Laurentia	Deputy Manager	110,990	January – October
12	Stroia Gheorghe	Manager of the National Dispatcher of Natural Gas Bucharest	115,320	January – December
13	Bunea Florin	Deputy Manager of the National Dispatcher of Natural Gas Bucharest	76,572	January – December
14	Chis Ioan	Manager of Human Resources & Organization Department	118,696	January – December
15	Mohan Aurel	Deputy Manager of Human Resources & Organization Department	100,280	January – December
16	Marin Dumitru	Manager of Budgeting, Finance and Accounting Department	108,344	January – December
17	Moldovan Radu	Deputy Manager of Budgeting, Finance and Accounting Department	88,413	January – December
18	Rusu Ioan	Manager of Technical & Development Department	118,906	January – December
19	Barbu Viorel	Deputy Manager of Technical & Development Department	82,857	January – December
20	Florea Vasile	Manager Natural Gas Transport & Regulations Department	107,332	January – December
21	Novac Mircea	Interim Manager of Research & Development Brach for natural gas	10,535	January – February
22	Cosma Florin	Manager of Research & Development Brach for natural gas	84,700	March – December

Nr. Crt.	Name	Position	Remunerations (Lei)	Time period - 2006
23	Chetan Ioan	Manager of Natural Gas Transport Branch	132,678	January – December
24	Lata Ilie	Technical Manager of Natural Gas Transport Branch	104,414	January – December
25	Tandrau Marcel	Manager Cluj regional unit	76,062	January – December
26	Polosan Zaharie	Manager Medias regional unit	75,760	January – December
27	Baldea Dan Iulian	Manager Bucuresti regional unit	79,755	January – December
28	Nita Viorel	Manager of Craiova regional unit	73,016	January – December
29	Gherghe Dumitru	Manager of Constanta regional unit	83,597	January – December
30	Bacila Ioan	Manager of Arad regional unit	80,179	January – December
31	Cristolovean Gh.	Manager of Brasov regional unit	81,567	January – December
32	Moraru Mihai	Manager of Braila regional unit	80,015	January – December
33	Dimitriu Alexandru	Manager of Bacau regional unit	84,208	January – December

Source: Management Reports

## 2. Functioning of administration and management bodies

Information regarding the professional experience of persons holding positions in administration, management and supervision bodies as well as expiry of their current mandates and, as the case may be, the period during which such persons held office in the issuer's last financial years is included in Annex no. 16 and Annex no. 17.

According to the Issuer's statement, there is no contract concluded between the members of the Issuer's administration, management and supervision bodies and the Issuer or any of its subsidiaries stipulating that benefits are granted when the contract expires.

The board of directors has not set-up audit or remuneration committees.

The Issuer states that it complies with the rules for companies' administration in force.

## 3. Employees

*Employee benefits:*

According to the collective employment agreement currently in force, within Transgaz the minimum salary can not be lower than the equivalent in RON of Euro 125 (as of the date of registration of the collective employment agreement, 16th October 2006).

The same agreement stipulates that the salary includes the basic salary, allowances, increments, as well as other additions. The Issuer pays the following allowances: seniority

allowance, hard working conditions allowance, night shift allowance, dangerous working conditions allowance, embarrassing working conditions allowance, harmful working conditions allowance, standby duty allowance, continuous work shift allowance, management bonus, overtime, leadership bonus.

The evolution of the average number of employees and the average salary:

<b>Date</b>	<b>Number of employees</b>	<b>Average salary (RON'000/employee /month)</b>
31.12.2005	4,755	1.83
31.12.2006	4,838	2.5
30.06.2007	4.876	2.6

Source: Transgaz, Management Reports

In 2006 the employees received meal tickets amounting to RON 7,393,420, while in the first 6 months of 2007 their value was of RON 3,969,270.

The Issuer makes the payments to the state budget and social security budgets on behalf of its employees in connection to withholdings. All the employees are part of the pension scheme of the Romanian state. These payments are stated in the income statement under salary expenses. Certain obligations regarding the contributions to private pension funds will apply to the issuer according to the provisions of law no. 411/2004 regarding private pension fund. Thus, in case of persons of less than 35 years old that are assured according to the provisions of Law no. 19/2000 regarding the public pension system and other social security rights and who contribute to the public pension system, must contribute to a pension fund according to this law. For people between 35 and 45 years old the contribution to such funds is optional. The contribution to the pension fund is withheld and transferred similarly to the one for social security.

According to the collective employment agreement, the Issuer must pay to its employees, upon retirement, an amount equal to a multiplier of their gross salary, depending on the period for which they worked in the gas industry, working conditions, etc. The Issuer registered provisions for these expenses. Except the contributions to the state budget, the Issuer does not have other obligations regarding post retirement benefits.

The Issuer also makes expenses for the gifts granted on some holidays (1 June, 8 March, Christmas, etc.), as well as for the partial settlement of leisure and treatment tickets. These benefits are granted to the Issuer's employees according to the terms of the collective employment agreement currently in force. The terms of the agreement regarding these benefits are summarised below:

According to art. 183 of the Collective Employment Agreement, the Issuer allocates funds for organising and celebrating some anniversaries and holidays such as: 8 March, Gas man day, Child's day, Christmas tree and the New Year, while the women and under aged children receive presents on Women Day, respectively on 1 June and Christmas, limited to minimum 10% of the average gross salary granted by the company.

According to art. 192 letter d and Annex 18, the Issuer allocates funds for the expenses made in connection to the discount of leisure and treatment tickets, obtained by the trade unions for the employees on sick leave or holiday, as well as for their family members (husband, wife and children in their support) up to 65% and 50% respectively. The discount applies to a quantum of the leisure and treatment ticket of maximum Eur 95/day/person, for a number of maximum 14 days for leisure tickets, and of 21 days for treatment tickets, cumulated in a single sojourn or two, as the case may be. For the tickets

the value of which exceeds the maximum of Eur 95/day, the difference is fully paid by the beneficiary of the ticket. The leisure and treatment tickets are obtained by the trade unions that signed the Collective Employment Agreement, based on their offers and the employees' demand.

According to art. 195 of the Collective Employment Agreement concluded on 16 October 2006, Transgaz employees receive yearly an aid equal to the value of 5,000 cm of natural gas starting October 2006. According to the addendum concluded on 28 March 2007, the natural gas quota was increased to 6,500 cm starting 1 January 2007.

Before October 2006 the gas aid was of 4,000 cm per year. The aid is paid in monthly instalments per employee at the daily price and is similar to the gross salary in terms of related contributions and taxes.

### ***Evolution of Issuer's employees***

	2003	2004	2005	2006	30.06.2007
Employee number at the end of the period	4,677	4,797	4,870	4,963	4,962
Change		2.56%	1.52%	1.90%	0.00%

Source: Transgaz, Management Reports

During the analysed period there were no significant changes in the number of Transgaz employees.

Transgaz does not use temporary employees, except for the positions the holders of which are on maternity leave. According to the law, such positions can be filled in only by employees with limited employment period.

### ***Evolution of the employee number in terms of seniority***

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	30.06.2007
Below 10 year	672	660	599	545	469
From 10 to 20 years	1,347	1,362	1,352	1,341	1,234
From 20 to 30 years	1,575	1,550	1,565	1,595	1,674
From 30 to 40 years	990	1,119	1,221	1,325	1,382
More than 40 years	93	106	133	157	203
<b>TOTAL EMPLOYEES</b>	<b>4,677</b>	<b>4,797</b>	<b>4,870</b>	<b>4,963</b>	<b>4,962</b>

Source: Management Reports

According to the collective employment agreement, each employee has the right to receive, upon retirement, irrespective of retirement reasons, a certain number of salaries depending on his/her seniority in the gas industry.

Seniority	No. of salaries due
Up to 10 years	2 salaries
From 10 to 20 years	3 salaries
From 20 to 30 years	4 salaries
From 30 to 40 years	5 salaries
More than 40 years	6 salaries

Source: Management Reports

The salary due upon retirement is the average of gross salaries obtained in the last 12 months prior to retirement date.

***Evolution of employee number in terms of seniority***

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	30.06.2007
Below 20 years	9	12	10	9	2
From 20 to 30 years	540	490	443	420	357
From 30 to 40 years	1,445	1,440	1,449	1,458	1,324
From 40 to 50 years	1,641	1,681	1,672	1,630	1,671
From 50 to 60 years	958	1,069	1,174	1,303	1,423
More than 60 years	84	105	122	143	185
<b>TOTAL EMPLOYEES</b>	<b>4,677</b>	<b>4,797</b>	<b>4,870</b>	<b>4,963</b>	<b>4,962</b>

Source: Management Reports

***Evolution of personnel in terms of studies***

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	30.06.2007
Undergraduate studies	560	569	647	695	782
Professional studies	1,358	1,361	883	908	1,017
High school	1,935	1,628	1,549	1,789	1,604
Secondary school + training course	824	1,239	1,791	1,571	1,559
No studies	0	0	0	0	0
<b>TOTAL EMPLOYEES</b>	<b>4,677</b>	<b>4,797</b>	<b>4,870</b>	<b>4,963</b>	<b>4,962</b>

Source: Management Reports

***Evolution of employee number in terms of activities***

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	30.06.2007
NTS operating personnel	2,729	2,766	2,732	2,697	2,578
Personnel in charge with maintenance, repairs	1,045	1,091	1,186	1,275	1,393
T.E.S.A. personnel	903	940	952	991	991
<b>TOTAL EMPLOYEES</b>	<b>4,677</b>	<b>4,797</b>	<b>4,870</b>	<b>4,963</b>	<b>4,962</b>

Source: Management Reports

***Participations and options***

No member of the management, administration or management bodies and no manager (whose name may be mentioned by the Issuer in order to prove that the Issuer has the experience necessary for managing its business) holds shares in the Issuer's share capital, and no such person holds options on Issuer's shares.

Based on relevant persons' statements the Issuer states that no member of the management, administration or management bodies and no manager (whose name may be mentioned by the Issuer in order to prove that the Issuer has the experience necessary for managing its business) subscribed within the offer for privatisation through restitution, including 5% of the Issuer's share capital, published in 2004 by the Ministry of Economy and Trade (currently Ministry of Economy and Finance) in connection to its obligation to grant to the entitled persons shares of the Issuer's available share capital, as repair measures in equivalent according to Law 10/2001.

The employees' participation to profit, according to the provisions of the Collective Employment Agreement concluded between the Issuer and its employees, the latter have the right to participate to profit according to the GO no. 64/2001 regarding the profit disbursement in companies in which the state is the majority or full owner, with its subsequent changes and amendments.

According to these provisions, national companies and trading companies fully or mainly held by the state may grant their employees the right to participate to profit within 10% of the net profit, but not more than a monthly average basic salary of the respective company in the financial year considered.

The individual distribution of the profit participation fund, according to the decision of the General Meeting, is made together with the trade unions that signed the Collective Employment Agreement, pro rata with the gross basic salary for the effective time worked full time.

For the years 2005 and 2006, the Issuer registered an expense with a provision related to the employees' profit participation fund according to the legislation in force. The expenses related to the fund for employees participation to profit will be settled in less than a year and are measured considering the amounts to be paid upon settlement. According to the decision of the General Meeting of 18 May 2006, the employee participation to profit of RON 4,350,025 was approved, amount to be paid in 2006. The employees' participation to profit was decided based on the average monthly gross salary per employee in 2005 (RON 911/employee) and according the average number of employees existing during the financial period ended (4.775). This amount, as of 31 December 2005, was registered as salary expense and was paid in 2006.

According to the decision of the General Meeting no. 6/27 April 2007, the employees participation to profit of RON 4,862,190 for 2006 was approved, amount obtained based on the average number of employees in 2006 (4.838) and the monthly average salary (ROL 1.005/employee). This amount was registered as salary expense as of 31 December 2006 and was paid in 2007. According to the same decision of the General Meeting, the general manager's participation to profit was approved in the same quota as the employees, of RON 4,780, as per article 141 par. (2) and (5) of the Collective Employment Agreement for the respective year.

Transgaz Employees are members in 4 legally registered trade unions, respectively:

- Medias Gas Transport Trade Union, with 4,576 members, affiliated to Federatia Sindicala Gaz – Romania (Gas Trade Unions Federation - Romania), Federatia Sindicala „Fratia” ("Fratia" Trade Union Federation) and Confederatia Sindicala “Atlas”(“Atlas" Trade Union Confederation);



- “Metan” Medias Professional Trade union), with 88 members, affiliated to Federatia Sindicala Gaz Metan Medias (Medias Metan Gas Trade Union Federation) and Blocul National Sindical (National Trade Union Block);
- S.N.T.G.N."Transgaz" S.A. Free Trade Union, with 91 members, affiliated to Federatia Sindicala Gaz Metan Medias (Medias Metan Gas Trade Union Federation) and Blocul National Sindical (National Trade Union Block);
- "CERTEH" Medias Technology Research Trade union, with 145 members, affiliated to Federatia Sindicatelor Gaz – Romania (Gas Trade Unions Federation - Romania).

Almost 99% of Transgaz employees are trade union members. There are no other contracts or agreements concluded with the trade unions, nor communications made to those according to information requirements, except for the Collective Employment Agreement applicable within the company. This regulates the individual and collective working relations, as well as parties’ rights and obligations regarding: the individual employment agreement, working conditions, social security and health, individual training, time of work and rest, salary, business rights and obligations, working discipline, social protection of the employees, etc.

#### ***Issuer’s Collective Employment Agreement***

The working relations within the Issuer are governed by the Employment Agreement on a national level for the years 2007-2010, registered with the Ministry of Labour, Social Solidarity and Family under no. with no. 2895/21/29 December 2006, by the Collective Employment Agreement applicable to companies active in the industry of electric and thermal energy, oil and gas for the year 2006 (the Issuer signed this document, according to the Annex to the addendum no. 498/06.03.2006), registered with the Ministry of Labour, Social Solidarity and Family under no 288/02/15 February 2006 and by Transgaz Collective Employment Agreement, registered under with no. 2341/18 October 2005 and extended with a year according to the addendum no. 3024/16 October 2006.

Considering that the company is included in CAEN code 6030 “Pipeline transport” and Annex 4 of the national collective employment agreement – list of branches for which collective employment agreements are concluded, the trade unions claimed that the issuer is included in the transport branch and, therefore, it should apply the collective employment agreement concluded for this branch. Moreover, Transgaz does not appear to have signed the Collective Employment Agreement for the transports branch and the trade unions within the company are not related to the ones that signed the collective employment agreement for the transport branch.

The terms of the Collective Employment Agreement applicable to the Issuer are mainly similar to the ones included in the Collective Employment Agreement for electric energy, thermal energy, petrol and gas branch, as well as the ones included in the Collective Employment Agreement on a national level. There is a series of inconsistencies between the terms of the Collective Employment Agreements concluded on a higher level and the ones included in the Issuer’s Collective Employment Agreement, such as:

- There is a series of allowances that are not mentioned in the Issuer’s collective employment agreement, although they are mentioned in the collective employment agreement for the branch;

- According to the Issuer's collective employment agreement, the allowance paid to the family in case an employee deceases will be of two basic salaries, at least 2 or 3 average salaries for the unit (according to circumstances of decease), as it is stipulated in the Collective Employment Agreement on a national level.
- According to the collective employment agreement for the branch, the bonus granted by the Issuer with the occasion of some religious holidays and the trade day must be of minimum one salary on the branch level, as compared to a minimum gross salary, according to the collective agreement for the Issuer.
- The minimum gross salary of the company (namely the equivalent in RON of Euro 125) is lower than the one stipulated on the collective employment agreement for the branch (namely RON 620);
- The procedure regarding collective dismissals is not regulated consistently; this aspect is to be discussed and modified within the yearly negotiations regarding the Issuer's collective employment agreement.

The collective employment agreement applicable to the company contains a series of superior rights granted by the Issuer, as compared to the similar provisions of the collective employment agreement on a higher level, such as:

- In case of termination of the employees' individual employment agreement for reasons outside their control, the Issuer will pay to every employee a dismissal allowance of 20 basic gross salaries, as compared to 1, namely 1.5 gross basic salaries, according to the collective employment agreement valid on a national level and for the branch, respectively;
- In case of retirement, according to the collective agreement applicable to the company, the employees have the right to a support, varying between 2 and 6 salaries (the salary representing the average of monthly salaries of the last months prior to retirement), depending on the length of service in the pit gas industry. On the branch's level, the value of the support granted upon retirement is of one basic salary.

The Issuer has not informed its employees regarding the processing of their personal data.

#### ***Conditions for declaring strike at Transgaz***

According to Law no. 168/1999 regarding the resolution of working conflicts, as amended and completed, usually the strike can be declared only in case of conflicts of interest in one of the four cases expressly provided by the law regarding the initiation, performance and conclusion of collective negotiations or the non compliance with the obligation to negotiate on a yearly basis some aspects of the collective employment agreement already concluded. The strike begins after the possibilities to solve the conflict of interest according to the law are eliminated. At the same time, the strike can begin only if its organisers notify the company's management accordingly at least 48 hours in advance.

According to the legal terms, in case of companies supplying gas to the population, there are some additional restrictions regarding the strike. Thus, the strike can be initiated on condition that its organisers and leaders ensure essential services, but not less than one third of the company's normal activity, complying with the minimum life requirements of local communities. In case of companies belonging to the national energetic system, the law stipulates that the strike can begin on condition to assure at least one third of the activity of the respective company, so that not to endanger the life and health of people and to assure the safe functioning of installations.

***Professional training***

For the activity to become more efficient, the Issuer makes a permanent analysis of the personnel structure and the employees' training.

The methodology for assessing the individual professional performance, annexed to the collective employment agreement applicable to the company, is valid for the entire personnel of Transgaz, except for the workers.

The purpose of the performance assessment system is to assure an efficient management, focused on:

- developing the employees' performance by a better knowledge weaknesses and strengths;
- improving the communication;
- career development;
- development of human resources programs regarding the selection, training and professional improvement;
- deciding realist criteria in order to recruit people from inside the company and to promote them;
- correlating the performances with the salary and occasional awards;
- identifying the opportunity to change positions depending on the employees' capacities and skills.

In order to maintain and develop professional skills, the Issuer constantly organises training courses for Transgaz employees, using both internal and external trainers, in order to form and increase the employees' level of professional training.

***Internal Regulation***

According to the Labour Code, each employer is compelled to elaborate an Internal Regulation. The Issuer adopted the internal Regulation no 4070 of 25 April 2003.

The Internal Regulation details the mandatory terms stipulated in the Labour Code, including the rules regarding working safety, hygiene and security, the ones regarding the compliance with the principle of non-discrimination and removal of any form of breaching dignity, employer's and employees' rights and obligations, rules regarding solving the employees' requests and complaints and the ones regarding working discipline, disciplinary deviations, the applicable sanctions and the rules regarding the disciplinary procedure. The Internal Regulation does not contain rights and obligations in addition to the ones mentioned by law.

The Issuer's Conduct Code was approved by the General Manager Decision no. 83/24.03.2006, regulating the conduct norms for Transgaz employees.

***Labour safety and security***

The Issuer states that it complies with the provisions of Law no. 319/2006 regarding labour safety and security, as well as the Government Decision no. 1425/2006 regarding the approval of the Methodological Norms for enforcing the provisions of Law no. 319/2006 regarding security and health measures at work place.

***Employees participation to Issuer's capital***

There are no agreements regarding employees' participation to capital.

## XI. IMPORTANT CONTRACTS

A detailed presentation of loan and financing contracts, as well as the main contracts regarding the gas industry is included below in this chapter.

The summary of contracts with related parties, loan and financing contracts, as well as the related guarantees, framework contracts for natural gas transport and other contracts of the gas industry mentioned in this chapter, as well as of other important contracts the value of which exceeds EUR 500,000, in force on 30 June 2007 is included at Annexes 19, 20, 21, 22, 23, 24, 25 and 26.

### 1. Loan and financing contracts

The Issuer benefits from bank loans as it took over certain loan contracts concluded by its predecessor SNGN Romgaz and contracted directly certain loans after its incorporation.

#### *Financing contracts taken over by the Issuer from SNGN Romgaz*

Upon its incorporation, Transgaz took over, according to the Report no. 5619 of 13 June 2000, concluded based on the Government Decision no. 334/2000:

- The obligation to repay to the Ministry of Trade and Finance, based on the subsidiary loan agreement concluded, the amount of USD 7,768,009.55, including the amounts not contracted until that date of USD 4,500,000 for the loan contracted by the Romanian state from BIRD as per BIRD loan 3723/RO.

At the time the loan was contracted (1994), the European Agreement between Romania and the European Union (containing express provisions regarding state aid), Competition Law no. 21/1996 and State Aid Law no. 143/1999, adopted, were not applicable. As a consequence, at that time a state aid measure was not necessary to be notified. When the State Aid Law no. 143/1999 entered into force, namely 01 January 2000, all state aids prior to this date were considered “existing aids” not subject to the respective law.

According to the letter of Competition Council of 1 August 2007, it can be considered that the authority’s position regarding this loan is similar to the ones mentioned above.

- rights and obligations of SNGN Romgaz resulting from:
  - loan contract concluded by SNGN Romgaz with The Commercial Bank for the Gas Industry Gazprombank on 24 November 199 and its guarantees; in order to confirm, according to English Law, the transfer of rights and obligations resulting therefrom to Transgaz, Transgaz concluded with the Commercial Bank for the Gas Industry Gazprombank on 9 August 2000 a Contract for assuming the obligations (“Deed of Assumption” of 2 October 2001).

#### *Loan and financing contracts concluded directly by the Issuer*

After the incorporation, the Issuer concluded directly loan and financing contracts, either for financing the purchase of goods, or for financing the Issuer’s current operating needs, except for the loan contract concluded with the Commercial Bank for the Gas Industry Gazprombank, which was granted in order to continue the financing of the projects for the extension of natural gas transit capacity in Romania. The following contracts were valid as of 30 June:

- two loan contracts concluded with ABN AMRO BANK (a) Contract for granting a loan facility, no. 5183 concluded on 14 December 2005 and (b) Contract for granting a loan facility, no. 4167 concluded on 20 December 2006;
- three credit lines concluded with EFIBANCA S.p.A (a) Credit line of 30 June 2003, (b) Credit line of 23 September 2004, as amended (c) Credit line of 21 January 2005, as amended; The contracts mentioned at (b) and (c) are classified. The Issuer considered that the information presented in the Prospectus in connection to these loans is not classified as per Law no. 182/2002 regarding the classified information and GD no. 585/2002 regarding the approval of National Standards for protecting the classified information in Romania.
- Contract for medium-term loan facility no. 0077 concluded with RAIFFEISEN Bank S.A, as amended;
- Contract for loan facility no. 22 of 31 August 2006 concluded by B.R.D. Groupe Societe Generale SA – Medias Branch;
- Loan Contract concluded with the Commercial Bank for the Gas Industry Gazprombank on 8 February 2001,
- Loan Contract no SIB/16/2007 signed with Unicredit Tiriac Bank S.A. on 31 October 2007. According to this contract the Issuer obtained a loan amounting to RON 100,600,000.

For each of the loan facilities granted, different guarantees have been pledged in order to assure the payment of the obligations undertaken by the Issuer; these include assignment of receivables, pledge on bank accounts, promissory notes.

#### *General issues regarding loan agreements*

- The Issuer did not comply in all cases with the obligations to notify the financing institutions or to obtain their agreement, as the case may be, assumed according to the loan and financing contracts it concluded.
  - the Issuer did not notify or, as the case may be, did not notify accordingly the creditors regarding the successive amendments of its Articles of Association. According to some loan agreements, depending on the circumstances, not making the notice may be considered a breach. Detailed information regarding these issues related to each loan or financing agreement are included at Annex 19 – paragraph “Comments”.
  - the Issuer did not notify or, as the case may be, did not notify accordingly the creditors regarding the new loan or financing facilities it contracted or the set-up of new guarantees out of its patrimony. Information related to the above, concerning each loan and financing contract are included in Annex 20 – Notes section.

The Issuer has not receive a notice regarding the current or potential existence of a default or the intention to repay in advance the loans or financing obtained or communicating that a non-binding loan facility is no longer granted.

- In case of two loan agreements and the related guarantees the contracting the Issuer did not obtain the parties’s approval of disclosure. Therefore, in this Prospectus there where not included or have been partly presented information regarding such contracts.

Status of loan and financing facilities as of 30 June 2007

<b>Bank</b>	<b>Purpose</b>	<b>Currency</b>	<b>Contracted value in the loan currency</b>	<b>Balance at 30.06.2007 in the loan currency</b>	<b>Balance at 30.06.2007 in RON</b>
BIRD	Restructuring and rehabilitation of Romanian oil sector BIRD RO 3723/1994	USD	6,933,684	3,850,706	9,887,072
Gazprombank Federatia Rusa	Extend transit capacities in Romania for the export of natural gas from Russian Federation to third countries	USD	48,340,434	16,814,064	43,171,792
Gazprombank Federatia Rusa	Extend transit capacities in Romania for the export of natural gas from Russian Federation to third countries	USD	67,000,000	25,780,392	66,193,735
ABN AMRO BANK Romania SA	Acquire pipeline and valves from Italy	EUR	6,436,920	5,229,998	17,686,284
Raiffeisenbank Romania	Modernise SMG Isaccea II	EUR	1,142,468	712,511	2,409,500
Efibanca Italia 30.09.2003	Acquire fittings from Italy	EUR	3,106,007	1,177,541	3,982,089
Efibanca Italia 23.09.2004	Acquire fittings from Italy	EUR	3,187,500	1,965,049	6,645,205
Efibanca Italia 21.01.2005	Acquire pipeline from Italy	EUR	2,127,720	1,276,632	4,317,186
ABN AMRO BANK Romania SA	Credit line	RON	30,000,000	18,871,800	18,871,800
BRD Medias	Credit line	RON	45,000,000	29,119,900	29,119,900

Source: Transgaz, Management Reports

Note: The loan signed with Unicredit Tiriack Bank S.A., no. SIB/16/2007, concluded after the reference date, 30 June 2007, was not presented in the above table.

A detailed presentation of loan and financing contracts and of guarantee agreements concluded by the Issuer is included at Annex 20 and Annex 21, respectively. Also, detailed information on loan contract concluded with Resial S.A. is presented in Annex 19 – Contracts concluded with related parties.

## 2. Contracts regarding natural gas industry

### *Contracts for natural gas transport*

For the gas year 2006-2007, the Issuer concluded 38 transport of natural gas contracts, out of which:

- 2 contracts concluded with producers,
- 10 contracts concluded with distributors,
- 11 contracts concluded with suppliers;
- 15 contracts concluded with eligible consumers.

At the same time, for gas year 2007-2008, the Issuer concluded 37 transport contracts out of which:

- 2 contracts concluded with producers,
- 10 contracts concluded with distributors,
- 14 contracts concluded with suppliers;
- 11 contracts concluded with eligible consumers.

The Issuer it concluded both (i) contracts for the provision of natural gas transport services with capacity reservation in the NTS based on the framework contract approved by the Regulatory Authority's Decision no. 460/2006 as amended, as well as (ii) contracts for the provision of interruptible natural gas transport through the NTS based on the framework contract approved by the Regulatory Authority's Decision no. 528/2006 as amended.

The summary of the main conditions of the mentioned framework contracts, valid starting 30 June 2007, are presented at Annex 22 - Framework contracts for natural gas transport.

The Issuer stated that it concluded contracts for natural gas transport in a form similar to the framework agreement approved by the Regulatory Authority.

#### ***Contracts for natural gas transit***

The Issuer concluded three contracts for natural gas transit based on inter-governmental conventions regarding natural gas transit over Romania.

These contracts for natural gas transit are long-term contracts concluded:

- Before the incorporation of the Issuer and, respectively, taken over by the Issuer according to the Delivery – Receipt Document concluded on 13 June 2000 between SNGN Romgaz and Transgaz, based on the Government Decision 334/2000, namely: (i) Contract regarding the natural gas transport over the territory of the Socialist Republic of Romania to Turkey, Greece and other countries no. 2102-06/03.06.1987, valid until 31 December 2011, concluded based on the Convention between the Government of the Socialist Republic of Romania and the Government of the Union of the Socialist Soviet Republics regarding the transit over the territory of the Socialist Republic of Romanian of gas from URSS to Turkey, Greece and other countries starting 29 December 1985, and (ii) Contract no. 643/00157629/210247/24.09.1999, concluded with the Limited Liability Company “Gazexport” OAO “Gazprom” (Moscow), having as initial deadline 31 December 2023, concluded based on the Convention between the Romanian Government and the Government of the Russian Federation regarding the extension of gas transit capacities over the Romanian territory for the increase of natural gas deliveries from the Russian Federation to third countries and to Romania, starting 25 October 1996, approved by the Government Decision 1369/1996, modified by the Government Decision 656/2001;
- After the incorporation of the Issuer, namely the contract no. 10726 regarding the transit over the Romanian territory of natural gas for the Republic of Bulgaria, starting 19 October 2005, concluded with Bulgargaz EAD, valid until 31 December 2011, concluded based on the Agreement regarding the cooperation in the energetic field between the Romanian Ministry of Resources and Industry and the Bulgarian Ministry of Energy and Energetic Resources, starting 29 October 2002, approved by the Government Decision 87/2003.



The payment of transit services within the two transit contracts concluded with Gazprom Export (Contract regarding natural gas transport over the territory of the Socialist Republic of Romania to Turkey, Greece and other countries no. 2102-06/03.06.1987 and the Contract no. 643/00157629/210247/24.09.1999) is also made by delivering natural gas by the customer (beneficiary of transit services) to the Issuer.

According with the transit contracts concluded, the Issuer agreed to some confidentiality clauses regarding their content, thus:

- Transit agreements no. 2102-06/03.06.1987 and no. 643/00157629/210247/24.09.1999 due to the negative answer of the contracting parties regarding the disclosure of information in connection with such contracts, only limited information concerning their terms and conditions were included in the Prospectus.
- Transit contract no. 10726/19.10.2005 was not presented in its entirety as it was not obtained the full agreement of the contracting party.

See Annex 23 for the main terms of the transit contract concluded with Bulgargaz.

The transit contracts concluded by the Issuer are confidential. The Issuer considers that the information included in the Prospectus regarding such contracts is not classified according to Law no. 182/2002 regarding classified information and GD no. 585/2002 regarding the approval of the National Standards for protecting the classified information in Romania..

As a guarantee for the payment of certain loans, the rights in connection to two of the transit contracts concluded by the Issuer were assigned to credit institutions.

#### ***Contracts for natural gas sale - purchase***

The Issuer concluded two contracts for natural gas sale – purchase, for the gas it obtained as payment for the transit services, as follows:

- Natural gas sale - purchase contract no. 5/2006 concluded between the Issuer and Petrom Gas SRL, and
- Natural gas sale - purchase contract no. 6/2006 concluded between the Issuer and Egl Gas&Power Romania SA

See Annex no. 24 for the main terms of the contracts for natural gas sale – purchase.

#### ***Contracts for natural gas procurement for its own technological consumption***

The Issuer concluded a contract for natural gas procurement for technological consumption, namely the Contract for Natural Gas Procurement for Technological Consumption no. 1/2003 with SNGN Romgaz.

The object of this contract is the sale-purchase of natural gas from the seller's current domestic production, necessary for the Issuer's technological consumption in the NTS. The initial term of this contract (1 January 2003 – 31 December 2003) was extended by successive addendums, the last one being the Addendum no. 17/2007, by which the term was extended until 31 March 2008.

According to this contract, the Issuer undertook some confidentiality obligations concerning its content. Because the Issuer did not obtain the agreement of SNGN Romgaz regarding the disclosure of some contractual clauses related to the tariff methodology, main rights and obligations, contractual changes or its appendices, information related with the above mentioned was no included in this Prospectus.

See Annex no. 24 for the presentation of the main terms of the gas procurement contract for technological consumption.

### **3. Partnership Agreement regarding the Nabucco gas pipeline**

On 11 October 2002, the Issuer concluded the Cooperation Agreement for the set-up of a consortium, in order to connect and turn into account the natural gas resources from the Caspian Sea Area and the Middle East, with the countries of the Central and Eastern Europe. At the moment, the partners' cooperation for the accomplishment of Nabucco Project is made based on the Partnership Agreement regarding Nabucco gas pipeline signed on 28 June 2005.

According to the mentioned Partnership Agreement, for the accomplishment of the Nabucco Gas Pipeline Project, the Issuer has the obligation to supply an initial financing, as well as guarantees and other forms of financial support for Nabucco Companies, in the quantity, at the time and in the form provided for by the Financing Plan approved unanimously by the Management Committee set-up according to the agreement. The partners to the project cannot be obliged to supply further financing without agreeing on the financing amount and how it will provided.

With respect to the implementation status of Nabucco Project, in February 2004, Nabucco Company Pipeline Study GmbH was formed, a private limited liability company, organized according to the laws of Austria, with headquarters in Vienna, having a share capital of Euro 35,000, its object of activity being to elaborate and/ or promote studies related to the financing of Nabucco Gas Pipeline Project, lobby at the governmental level and at the level of the European Commission in order to create appropriate facilities for potential investors, the coordination of public relation activities, the negotiation of the transport contracts with potential transporters.

In October 2005, the company Nabucco Company Pipeline Study GmbH was renamed Nabucco Gas Pipeline International GmbH, extending, at the same time, its object of activity so as to allow the performance of new activities, according to the provisions of the Partnership Agreement regarding Nabucco Gas Pipeline (the negotiation and the conclusion of transport contracts with potential customers, making the necessary steps to obtain financing for the Nabucco Project, etc.).

Among the other important steps made until now for the implementation of Nabucco Project are:

- Hire the advisor for mergers and acquisitions – BNP Paribas, France
- Start the procedures for finding an additional partner
- Signing by the Romanian Government with the support of Ministry of Economy and Commerce and the competent ministries, on 8 November .2005, the Memorandum for the building the natural gas transport pipeline from the Caspian Sea area and the Middle East to Western Europe through Turkey, Bulgaria, Romania, Hungary and Austria – the Nabucco Project;
- Start the procedure for selecting the general designer (according to European laws regarding the public acquisitions);
- Submit to the European Commission and the regulatory authorities, the request for exemption from certain provisions regarding the access of third parties to the system

At the moment, for the development of the Nabucco Project, the Issuer carries activities corresponding to the development stage of the project, as follows:

- Technical aspects: initiate the tender process for the selection of the general designer
- Financial aspects: select a new financial advisor, finish the process for getting an additional partner
- Legal aspects: conclude the Intergovernmental Agreement (the preliminary form of which was approved by all the project partners), form the National Nabucco Companies, reanalyse the possibility to continue the collaboration with the current legal advisor or to start working with an international legal advisor
- Economic aspects: necessary steps at the regulatory authorities in order to obtain comfort letters from them, allowing the initiation of the “open season” process for allocating the capacity related to Nabucco pipeline.

As the partnership agreement is confidential and considering the confidentiality obligations assumed by the issuer, the summary of this agreement was not included in the prospectus. The Issuer consider that the information presented in the prospectus regarding this agreement is not classified a per law no. 182/2002 regarding protecting the classified information and GD no. 585/2002 for approving the National Standards for protecting classified information in Romania.

## XII. REAL ESTATE, MACHINES AND EQUIPMENT

The patrimony of the Issuer was built up by taking over part of the assets and, respectively, the liabilities of SNGN Romgaz based on the balance sheet thereof as of 31 December 1999. Thus, the individualisation of the assets and rights taken over depends on the accuracy, the completeness and correct registration and detailing in the accounting statements prepared by each of the Issuer's predecessors.

At the same time, according to Government Decision 334/2000, the 5 companies resulting from the reorganisation took over all the rights and were to be liable for all obligations of SNGN Romgaz. This general reference to all five companies, correlated to the delivery-receipt documents concluded between each company and SNGN Romgaz, could be a ground for a creditor to invoke a passive solidarity relation between these companies as regards the obligations transferred from SNGN Romgaz.

With respect to the transfer of SNGN Romgaz rights and obligations, we state that the documents concluded with the National Company for Underground Storage of Natural Gas - "Depogaz" S.A., the Company for Natural Gas Exploration and Production - „Exprogaz" S.A., the Company for Natural Gas Distribution "Distrigaz Sud" S.A. and the Company for Natural Gas Distribution "Distrigaz Nord" S.A. set out that the substitution in rights and obligations of SNGN Romgaz will only be performed within the limits provided in the respective documents, while the delivery-receipt document concluded between SNGN Romgaz and Transgaz does not contain such a provision.

### *Land and buildings*

#### *a) Land and buildings used by the Issuer (other than the ones belonging to third parties)*

##### *Land*

The Issuer holds the following certifications regarding plots of land, with a total area of approximately 246,100 sqm, that it uses (other than those identified as belonging to third parties):

- Sale-purchase agreements concluded by the Issuer (or by its predecessors) in as buyers, with a total area of about 65,550 sqm, out of which three sale-purchase agreements can be considered as agreements with related parties, concluded by the Issuer as buyer, as follows:
  - (i) sale-purchase agreement authenticated under no. 785/09.06.2004 concluded with SCDGN Distrigaz Sud S.A. (as seller), having as object the real estate with an area of 3,180.39 sqm comprising land and related buildings, sold by the seller for a price of ROL 5,982,773,172;
  - (ii) sale-purchase agreement authenticated under no. 786/09.06.2004 concluded with SCDGN Distrigaz Sud S.A. (as seller), having as object the real estate with an area 827.79 sqm comprising land and related buildings, sold by the seller for a price of ROL 36,514,616,179;
  - (iii) sale-purchase agreement authenticated under no. 405/17.02.2000 concluded with B.A.T. Medias S.A. (as seller), having as object the real

estate with an area of 12,849 sqm comprising land and related buildings, sold by the seller for a price of ROL 2,600,000,000.

Annex 18 contains the main terms of these agreements concluded with related parties.

Aspects concerning the sale-purchase agreements:

*Real estate advertising:* The Issuer concluded 35 sale-purchase agreements, out of which 14 agreements were recorded in the relevant land book. If sale-purchase agreements are not recorded in the land book, the result is the lack of imposing the ownership rights acquired pursuant to these agreements to third parties.

- Donation agreements concluded by the Issuer, as beneficiary, and individuals as donors, having as object plots of land with the total surface of 1.217,84 sqm.
- Ownership certificates issued in the Issuer's name pursuant to the provisions of Law no. 15/1990 concerning the reorganisation of companies held by the state as autonomous companies and trading companies and of the Government Decision no. 834/1991 concerning the set out and assessment of some plots of land belonging to companies held by the state.

The Issuer has obtained 106 Certificates, for a total land area of about 179.370 sqm. At the same time, it currently prepares the technical documentations in order to obtain new ownership certificates for land having a total area of approximately 250,276 sqm.

Aspects concerning ownership certificates:

*Real estate advertising:* Out of the 106 ownership certificates for the plots of land obtained by the Issuer, 53 certificates were recorded in the relevant land book. If sale-purchase agreements are not recorded in the land book, the result is the lack of imposing the ownership rights acquired pursuant to these agreements to third parties.

The Issuer states that:

- a. the ownership certificates it obtained were issued in compliance with the provisions of law no. 15/1990 and the GD no. 834/1991, as well as with all the legal requirements in force at the time they were issued;
- b. the validity of the ownership certificates was not questioned by third parties, except for the request to cancel the Certificate series M03 no. 9400 (please see the information included in Annex 28); according to the Issuer's knowledge, there is no reason for the invalidation of such certificates;
- c. there are no pending claims regarding land for which ownership certificates were obtained, and the Issuer is not aware of a claim regarding land held bases on the certificates;
- d. The issuer has not received claims for restitution of land held based on ownership certificates, submitted according to the laws on property restitution (mainly including law no. 10/2001, Law no. 18/1991 regarding the agricultural real estate and law no. 1/2000 for retracing

the property right over forestry and agricultural land required by law no. 18/1991 and law 169/1997, as successively amended), except for the notices stated at Annex 28. The issuer is not aware of the imminence of any notice regarding the restitution of land held based on the certificates.

#### *Buildings used by the Issuer*

The Issuer holds certain certificated for its headquarters, the headquarters of the branches that were dissolved, the headquarters of Natural Gas Dispatcher Bucharest and the headquarters of regional transport and transit units mentioned at Annex 26.

Identifying the buildings taken over by the issuer when SNGN Romgaz as formed, according to the delivery-receipt document concluded on 13 June 2000 between SNGN Romgaz and the Issuer were not registered in the appropriate manner, which may trigger risks related to proving the title over such buildings, some of them being only registered in the accounting books.

With respect to the claims regarding the Issuer's rights on buildings, see Chapter IV. Operating and Financial Review, Section – Legal and arbitration procedures – Requests for restitution.

#### b) Buildings held by the Issuer in use

##### o Lands conceded by the Issuer

Besides the land mentioned in above paragraph a), the Issuer uses land based on concession agreements concluded, usually, between it and the representatives of local public authorities. The above mentioned land was conceded in order to: (a) build adjustment-measurement stations; (b) place radio relay towers; (c) place measuring panels and other technical constructions; (d) build dwellings and headquarters.

The Issuer concluded 44 concession agreements, out of which 6 are concluded free of charge. These generally include usual provisions of the concession agreements.

The concession agreements have been concluded for terms of 90, 99 or 100 years in case of agreements concluded before the enforcement of Law 219/1998 (23 January 1999) regarding the concession treatment, and respectively 49 years subsequent to this date.

##### o Lands leased by the Issuer

The Issuer uses plots of land based on 113 lease agreements concluded mostly between individuals (as lessors) and Transgaz (as lessee), out of which approximately 100 agreements are concluded for a period of 3 years or larger.

The Issuer holds, as lessee, land leased in order to develop certain objectives necessary for carrying out its object of activity.

Also, the Issuer, as lessor, leased a series of real estate to its employees, to be used as business dwellings.

##### o Land held by the Issuer free of charge

The Issuer was granted land for using it free of charge use, either pursuant to some free lease agreements, concluded, usually, with the representatives of the

local public authorities, or based on certain individual administrative documents. Land thus held is used by Transgaz for developing/operation of certain adjustment – measurement stations and in order to perform other investment works necessary for carrying out its activities.

The Issuer did not perform the registration formalities in the land book of the agreements based on which it holds the right to use some plots of land, leased for a period larger than 3 years, as mentioned above. If such agreements are not recorded in the land book, the result is the lack of imposing the rights obtained pursuant to these agreements to third parties.

- o Real estate used by the Issuer without title

The Issuer uses without title a relatively high number of real estate assets, comprising land with a total area of approximately 534.675 sqm. Some adjustment – measurement stations or other equipment are placed on such land. The documents for obtaining ownership certificated for some of these plots of land were already elaborated (see information at the paragraph Land used by the issuer (other than the ones identified as belonging to third parties).

- c) Major charges on real estate

The Issuer states that, in connection to its real estate assets (i) no major charges were formed, including privileges, interdictions, mortgages, significant limitations of the ownership right, usage right, free transfer of the same and (ii) there are no ongoing actions, litigation or arbitrage procedure of administrative or governmental procedures other than the ones mentioned at Annex 28 – Overview of litigations and notifications in which the Issuer is involved in. .

#### ***Title regarding the natural gas transport network - NTS***

Starting 2002, pursuant to the Concession Agreement, the Issuer was granted the right to operate directly, on its risk and responsibility, the major pipelines, installations, equipment and machines related to the national system for natural gas transport, as well as the right to operate the natural gas transport network, qualified as an asset of strategic importance, publicly owned by the state. In order to carry out the object of the concession, the Issuer has the right to operate the goods (including those resulting from the investments made by the Issuer) related to the natural gas transport network and to receive the tariff for operating the natural gas transport network. The Issuer was also granted the right to access the land areas necessary to carry out the operation of the natural gas transport network.

#### ***Title regarding the assets related to the NTS***

In order to assure the continuity of NTS operation, the Concession Agreement includes specific provisions regarding the classification of the assets related to the NTS or used during the provision of natural gas transport, as follows:

- a) The assets that will be returned to the grantor, free of charge title and free of any charges, upon the termination of the Concession Agreement are divided in two categories:
  - Assets that are subject to the Concession Agreement expressly mentioned in the Agreement, resulted from investments from own sources or/and budgetary sources;

- Assets obtained according to the minimal program provided in the Concession Agreement.

The Issuer assumed certain investment obligations, respectively the carrying out, within the first 4 contractual<sup>1</sup> years, of a minimal program mainly comprising: development and upgrade of pipelines and the related installations; upgrade of the compressors station; upgrade of the delivery-receipt stations and of the measurements systems; automation of the NTS and installation of certain systems for natural gas flow monitoring; development of the telecommunications system related to the NTS.

The parties are to update the programmes for NTS modernisation and development once every 5 years, by means of an addendum.

Information regarding the compliance with the minimum investment programme for the period 2002-2006, namely the approval of the minimum investment plan for the period 2007-2011 are included at Chapter VIII – Description of the Issuer’s Activity, Section 1 – Natural gas transport activity.

- Taken over assets*, consisting in telecommunication equipment described at Annex 5 to the Concession Agreement, as well as other goods performed by the Issuer during the concession and that can become publicly owned by the state and managed by ANRM, free of any charges, upon the grantor’s option in this respect, on the date of expiry of the Concession Agreement, and the payment to the Issuer of a compensation equal to the updated book value of the concerned assets, calculated according to the legal provisions in force at that time.
- Own assets* consisting in the assets described at Annex 6 to the Concession Agreement, which the Issuer holds both during the Concession Agreement and subsequently, after the termination thereof.

Details regarding the Concession Agreement are presented at Annex 7.

#### ***Title upon major pipelines for natural gases transit***

The transit major pipelines are publicly owned by the state, based on the Government decisions approving the international agreements based on which natural gas transit agreements are concluded, namely the terms set out in the intergovernmental conventions (see Chapter XI.2 Important contracts - Section - Contracts for natural gas transit).

The right to use the dedicated major pipelines is granted to the Issuer based on the Concession Agreement, being included in the assets related to the NTS and complying with their legal status according to this Agreement, even if these are not included in the NTS. The Issuer carries out the transit activity based on Gas Law no. 351/2004 and the international agreements to which Romania is a party.

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According to the Agreement, the contractual year is defined as the period of 12 months, calculated according to the Gregorian calendar, from the date on which the Agreement became valid or from any annual celebration of the date on which the Agreement became valid.



The Issuer states that it does not hold tangible assets exceeding EURO 100,000 besides the ones related to the NTS, except for the ones for NTS maintenance, development, modernisation and rehabilitation.

### **Information regarding non-current assets**

The analysis of the issuer's assets points out that intangible assets hold the largest weight in the Issuer's assets (91.76% in 2004, 91.11% in 2005 and 90.47% in 2006), and, within them, tangible assets represented 91.3% of total assets in 2004, 90.7% in 2005 and 90.09% in 2006.

In general, the assets have had the same values, registering an increase of 3.14% in 2005 as compared to 2004, mainly sustained by the growth of tangible assets.

### **Non-current assets**

#### *Tangible assets*

The table below presents the evolution of tangible assets:

<b>Ths. RON</b>	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Other plant, machinery and furniture</b>	<b>Advances and tangible assets in progress</b>	<b>Total</b>
Gross value on 31.12.2004	460,790	4,392,981	293,031	124,237	5,271,039
Cumulated depreciation	(152,611)	(2,388,550)	(208,013)	0	(2,749,174)
Net value on 31.12.2004	308,179	2,004,431	85,018	124,237	2,521,865
Gross value on 31.12.2005	462,928	4,577,671	297,101	108,415	5,446,115
Cumulated depreciation	(165,190)	(2,460,338)	(218,102)	0	(2,843,630)
Net value on 31.12.2005	297,738	2,117,333	78,999	108,415	2,602,485
Gross value on 31.12.2006	463,570	4,728,427	303,445	119,588	5,615,030
Cumulated depreciation	(176,657)	(2,584,809)	(233,889)	0	(2,995,355)
Net value on 31.12.2006	286,913	2,143,618	69,556	119,588	2,619,675

*Source: IFRS compliant financial statements*

The net book value as of 31 December 2005 increased by 3.19% as compared to 31 December 2004, and by 0.66% on 31 December 2006 as compared to 31.12.2005, mainly due to the commissioning of new capacities for natural gas transport, as well as following the registration of land for which ownership certificates were obtained in 2005 and 2006. Ownership certificates were obtained also in 2004 when new natural gas transport capacities were commissioned.

The Issuer manages land and buildings, plant and machinery, as well as assets in progress.

Land has the most reduced weight in this category. More important are the land areas on which training centers are built (at Sinaia and Breaza), as well as the land of 30 Calea Dorobanti, Sector 2, Bucharest.

#### *Tangible assets in progress*

The most important tangible asset in progress in balance as of 31. December 2006 is the pipeline Filiasi Turnu Severin Etapa III, accounting for 13.17% of the value of tangible

assets in progress. Other tangible assets in progress mainly refer to the execution and modernisation of natural gas transport pipelines: Project for improving the gas supply to Slatina, Giurgiu Supply Pipeline, Calarasi Supply Pipeline.

#### *Tangible assets belonging to public patrimony*

NTS related assets include tangible assets belonging to public patrimony.

According to the provisions of Law no. 213/1998 regarding the public property and its status, the gas transport networks are fixed assets publicly owned by the Romanian state.

According to the Concession Agreement, the Issuer registered a royalty fee representing a percentage of the total revenues from natural gas transport and international transit. Starting with 8 October 2007, the royalty fee was increase from 5% to 10%. For more details regarding the Concession Agreement see Chapter VIII – Description of the Issuer’s Activity and Annex 7.

In the Issuer’s statutory financial statements, concessions were registered at the inventory value of tangible assets belonging to the public domain and that were subject to the Concession Agreement. Accordingly, the Issuer registered a long term debt related to the concession.

According to the provisions of Law no. 213/1998 regarding public ownership and its conditions, and the Government Decision 1031/14 December 1999 for the approval of the methodological norms regarding the accounting registration of assets publicly owned by the state, the Issuer does not depreciate the assets subject to the Concession Agreement in its statutory financial statements.

In the Issuer’s financial statements elaborated according to IFRS, the Issuer, as of 31 December 2009, registered in its balance sheet tangible assets belonging to the public domain that were subject to the Concession Agreement at a revaluated net value of RON 541,499. Accordingly, the Issuer registers in its equity the reserve regarding public patrimony. The Issuer calculates and registers in its IFRS compliant financial statements the depreciation of the assets subject to the Concession Agreement. For details please see Chapter VI.4 Operating & Financial review , Section 4, Main Accounting Policies.

#### *Depreciation of tangible assets*

In the statutory financial statements, depreciation is calculated at the revaluated value, using the straight line method during the estimated life period of the assets, except for the tangible assets subject to the provisions of Law no. 332/2001 regarding investments with significant aspect in the economy. This law stipulates that, in case of direct investments significantly impacting on the economy (with values exceeding 1 million USD) the accelerated depreciation applies according to the provisions of Law no. 15/1994 regarding the depreciation of capital formed for tangible and intangible assets, as subsequently amended and completed.

In IFRS compliant financial statements, depreciation is computed at the revaluated value using only the straight line method for the estimated life period of the assets. In these financial statements the issuer calculated and registered the depreciation of the assets subject to the Concession Agreement.

#### *Intangible assets*

Intangible assets have a small weight in total assets, less than 0.5% during the three years that were reviewed.

Intangible assets comprise patents, licenses, software, as well as intangible assets in progress.

The most important tangible assets are the natural gas transit license, salary licenses, transport and dispatch licenses.

Intangible assets in progress mainly include the licenses to Oracle Est Central Europe Ltd, advisory services provided by Oracle.

### ***Environmental issues***

*General matters - the applicable legal frame in the field of the environmental protection. General obligations of the Issuer regarding environmental protection.*

The Government Emergency Ordinance no. 195/2005 regarding environmental protection, as well as a series of other normative deeds, including Government decisions, orders, decisions and procedures issued by the Ministry of Environment and Durable Development, form the legal framework concerning environmental protection.

Based on this legislation, the competent environmental authorities issue the necessary documents for companies to be able to carry out activities impacting on the environment. The document that gives the right to companies to initiate and carry out activities that have a significant impact on the environment is the environmental authorisation.

Environmental authorisations are issued by the local agencies for environmental protection for a period of maximum 5 years, the holder having the obligation to extend the validity thereof in order to continue its activity. Environmental authorisations may include compliance programs, specifying the actions that companies must take to remedy the effects of past or present pollution activities, as well as the terms to implement these actions.

Failure to observe the provisions of environmental legislation leads to sanctions which, depending on the nature and the significance of the violation, can be: (i) payment of damages covering the costs of land and/or buildings rehabilitation and, possibly, also indemnifications for the non-realised profits, (ii) payment of some fines that can be applied either to companies or to the personnel thereof or to individuals for various violations of the environmental legislation, (iii) penal fines, (iv) confinement for natural persons and (v) suspension or cancellation of environmental permits and authorisations, resulting in the suspension of the relevant activity.

There are no express references regarding the direct responsibility of an investor in a Romanian entity. According to the Romanian legislation, the responsibility as regards environment pollution is borne by the entity producing the pollution, and it is not extended upon the shareholders thereof.

The main obligations of the Issuer, in accordance with the provisions of Government Emergency Ordinance no. 195/2005 concerning environmental protection, are as follows:

- to request and to obtain the permits, authorisations and the other deeds, according to the legal provisions, within the terms set out by the competent authority for the environment protection;
- in case the Issuer is the holder of some activities that are subject to regulation procedures, to observe the terms imposed by the competent authority for the environment protection in carrying out these procedures;
- to reduce, to modify or to cease the activities generating pollution, on the justified demand of the authorities for the environment protection;

- to assist the persons entitled to verify, inspect and control, putting at their disposal all relevant documents;
- to bear the cost for remedy a prejudice and to remedy the consequences produced thereby, restoring the state prior the prejudice producing, according to the principle "the pollutant pays".

*Issuer's compliance with the requirements of the legal framework concerning environmental protection*

#### Environmental authorisation

Pursuant to the Government Emergency Ordinance no. 195/2005 concerning environmental protection, as amended and supplemented, and the Order of the Ministry of the Environment and Water Management no. 876/2004 concerning the approval of the Procedure for the authorisation of activities having a significant impact on the environment, the Issuer is obliged to obtain environmental authorisation for each location where activities having a significant impact on the environment are carried out.

In case a business unit of the Issuer does not carry out activities with significant impact on the environment, the Issuer can perform its activity based on its own statement as regards the observance of environmental conditions, submitted to the competent office of the Register of Commerce.

A number of activities from the ones registered in the Issuer's object of activity are considered activities with significant impact on the environment, including the main object of activity (pipeline transport - CAEN code 6030).

Due to the Issuer's object of activity, Transgaz does not need authorisation for gas emission with greenhouse effect and, at the same time, it does not carry out activities set out at Annex 1 of the Government Emergency Ordinance no. 152/2005 regarding the prevention and integrated control of pollution. The necessary authorisations are the standard environmental authorisations issued by the respective Local agencies for environmental protection.

For the activities carried out at its 719 business units, the Issuer holds 553 environmental authorisations. For the business units for which no environmental authorisations were obtained, although these are necessary, the Issuer obtained the documentation necessary for obtaining them. For some of them the procedure for issuing the environmental authorisations is delayed due to the lack of ownership documents.

#### Compliance programs

Four of the environmental authorisations held by the Issuer include compliance programs, respectively:

- (i) Environmental authorisation no.154/9 September 2005 for carrying out general mechanic operations at the secondary office Sighisoara, Mures county; the deadline for implementing the compliance program is the 4<sup>th</sup> quarter of 2005
- (ii) Environmental authorisation no. 219/13 October 2006 for carrying out natural gas transport through the NTS SNT and natural gas dispatch at the secondary office - SRM Balan, Harghita county; the deadline for implementing the compliance program is 30 of September 2008
- (iii) Environmental authorisation no. 224/18 October 2006 for carrying out natural gas transport through the NTS and natural gas dispatch at the secondary office - SRM

Vlahita, Harghita county; the deadline for implementing the compliance program is 30 September 2008

- (iv) Environmental authorisation no. 172/22 May 2002 for carrying out natural gas transport in Neamt county; the deadline for implementing the compliance program is 30 April 2007 (some actions of this program must be taken before that).

These four compliance programs contain estimates regarding the necessary investments, the aggregate amount being the equivalent of EUR 100,300.

The Issuer is in the process of implementing the measures imposed by the two compliance programs with the deadline on 30 September 2008, while as it concerns the compliance program regarding the environmental authorisation no. 154/9 September 2005, all the related measures were implemented.

With respect to the compliance program related to the environmental authorisation no. 172/22 May 2002, the compliance period of which expired, not all imposed actions have been implemented.

In case of failure to observe the deadlines provided in the compliance program, the environmental authorisation may be suspended, after a previous notice. The suspension is maintained until performing the actions of the compliance program, but not more than 6 months. When the conditions mentioned in the notices are not fulfilled, the competent authority for environmental protection orders, after the expiry of the suspension term, the cancellation of the environmental authorisation and cease of activity. The decision to suspend the authorisation and to cease activities is enforceable.

#### Water management authorisation

According to the Water Law no. 107/1996, in order to commission or to operate some works on the waters or connected to waters, works expressly set out by the law, it is necessary to obtain the authorisation for water management.

For the activities carried out at its 719 business units, the Issuer holds 117 water management authorisations, out of which 20 expired on 30 June 2007 and other three on 31 July 2007. The necessary documentation for renewing the expired authorisations was submitted to the competent authorities. The Issuer submitted to the competent authorities the documentation necessary for renewing the authorisations expired on 30 June 2007 and will prepare the necessary documentation for renewing the authorisations expired on 31 July 2007.

#### Management of issues concerning environmental protection

Within the Issuer, each branch, regional unit and dispatcher has employees in charge with environmental issues. Their activity is coordinated by an environmental coordinator for the company. Moreover, the Issuer's general manager and deputy manager, branch directors, regional unit directors, as well as certain head of departments have significant responsibilities regarding environmental matters.

The Issuer holds the certificate for the environment management system issued according to ISO 14001 standard regarding the transport, dispatch and international transit of natural gas, design of electric installations of type B (outside installations for civil and industrial constructions, air and underground connections at powers of 0,4 kV) and type C1 (air and underground electric lines with tensions of 0,4-20 kV and transformation stations) for the natural gas sector. This certificate was issued for the Issuer on 14 March 2006 and it is valid until 4 January 2009.

***Impact of environmental factors on natural gas transport network***

*Air impact:* is due to the action of climatic factors leading to pipeline corrosion upon air contact.

*Soil impact:* it is divided in 2 action types: continuous action - has as result pipeline corrosion depending on the soil pH; and accidental action - has as result earth sliding due to various reasons.

*Water impact:* as it concerns the water action on the pipelines, two types of actions are noticed: the continuous action – in time leads to banks' erosion, over ground passages and exposure of posts and even the pipelines; and accidental action - in case of floods and high floods.

In case of phreatic waters, these act on the natural gas transport network when the phreatic waters level is high, affecting the floatability thereof or in case of swamps leading to pipeline corrosion.

***Impact of natural gas transport network on the environment******Impact on the soil***

The main reasons of the potential impact on the soil or on the phreatic waters are of operational nature, having an obvious accidental character. These are as follows:

- Repairs and replacement of underground pipelines or installation of such pipelines.
- Leaks of contaminated liquids, disposal of bad wastes, gas emissions resulting from deteriorated underground pipelines.

***Impact on phreatic waters***

Impact on phreatic waters is caused by emissions as a result mainly from normal and accidental leaks from the transport network and they could be assessed by the difference between the quantity of gas entered into Transgaz transport system and the respective quantity at the exit point.

Depending on the calculated losses, the contribution to be paid to the Environmental Fund is calculated.

System losses are recognised by the Issuer not only as an environmental problem, but also as an operation problem.

A pipeline replacement process is currently carried out and it could lead to the significant reduction of the losses in the network.

## List of Issuer's main activities having a significant impact on the environment

Activity	Environmental issue	Impact	
<b>Transport of natural gas through SNT</b>			
Gas measurement	Accidental emissions of pit gas from leaking keyboard	Air pollution	
Transport of gas through pipeline	Accidental emissions of pit gas from leaking pipes	Air, water and potential soil pollution	
	Accidental discharge of liquids from the vessels used for storing the contents of the skimmers	Potential soil pollution	
Interior pipeline protection (go-deviling)	Discharge of liquids from the skimmers directly on the ground and in water	Potential soil, water pollution	
	Accidental discharge of liquid wastes	Potential soil pollution	
Gas compression	Emissions of pit gas in the air	Atmosphere pollution	
	Noise generation from the operation of the compressor	Phonic pollution	
	Noise generation from the operation of the electric generator	Phonic pollution	
	Accidental emissions of gas from leaking keyboard	Air pollution	
Adjustment measurement	Emissions of pit gas in case of breakdown	Air pollution	
	Accidental discharge of liquids from the vessels used for storing the contents of the skimmers	Potential soil pollution	
	Emission of odorant vapors, inlet through pressure exhaustion	Air pollution	
	Emission of odorant vapors, inlet through free casting	Air pollution	
	Emission of pit gas and odorant vapors upon depressurizing of the odorizer in order to fill it	Air pollution	
	Emission of odorant vapors upon package handling	Air pollution	
	Accidental discharge of odorant	Air, soil pollution	
<b>Road Transport</b>	Noise generation from SRMs situated in the city and in inhabited areas	Phonic pollution	
	<b>Road Transport</b>		
	Materials and passengers transport	Accidental discharge during transportation of the products resulted from go-deviling and skimming	Potential soil, water pollution
		Emissions of toxic and inflammable vapors of odorant agent during transportation	Potential soil, air, water pollution Intoxication risk
		Accidental discharge during transportation of the oil for cars, compressors, machinery	Potential soil, water pollution
		Accidental discharge during transportation of the used oil	Potential soil, water pollution
		Accidental discharge of fuel during transportation	Potential soil, water pollution
		Accidental discharge of oxygen tubes during transportation	Potential explosion risk
		Road events during transportation of passengers with the company's cars	Corporal injury risk
		Road events resulted into the destruction of the transport means	Potential soil, air, water pollution Fire risk
Car maintenance	Discharge of the cleaning agents for parts	Potential soil, water pollution	
	Oil discharge	Potential soil, water pollution	
	Inadequate storage of used oil	Potential soil, pollution	
Storage	Inadequate storage of fuels	Potential soil, air, water pollution Fire risk	
	Inadequate storage of packaging contaminated with odorant	Potential soil, air, water pollution Fire risk	

Source: Transgaz, Managerial Reports

### **XIII. ADDITIONAL INFORMATION**

#### ***Information provided by third parties, statements of experts and statements of interests***

For the elaboration of Chapter VIII "Description of the Issuer's Activity" the Intermediary's team benefited from the extended experience in natural gas field of Mr. Neculai Pavlovschi, as outside technical advisor. Mr. Neculai Pavlovschi is member in the Board of Directors of SNGN Romgaz, company with which Transgaz carries out commercial transactions (contract for gas sale-purchase for technological consumption, contract for provision of natural gas transport services for Romgaz). At the same time, Mr. Neculai Pavlovschi is first degree relative of Mr. Vlad Pavlovschi, Manager of Transgaz Research, Engineering and Regulations Department.

The issuer states that the information included in the prospectus coming from a third party were reproduced accurately and that, according to its knowledge and to the extent it may confirm considering the data published by the respective third party, no facts that may make the information incorrect or misleading were omitted.

#### ***Documents made available to the public*****The Issuer states that during the entire validity period of the Offering, the following documents are made available to the investors:**

- Offering Prospectus
- The Prospectus' annexes (including the Issuer's Articles of Association IFRS compliant financial statements for the three years ended 31 December 2006, the condensed interim financial statements for the six months ended 30 June 2007, together with the auditors' reports)

The documents mentioned above may be read, in hard copy, at any of the headquarters of the distribution group specified at section XV.2 "Distribution Network" or in soft copy by accessing the Manager's site, [www.rciro.ro](http://www.rciro.ro) or the web sites of Distribution Groups' members ([www.rzb.ro](http://www.rzb.ro) and [www.intercapital.ro](http://www.intercapital.ro))

Considering that Resial S.A. is currently undergoing the bankruptcy procedure, the Issuer did not consider necessary to include Resial's S.A. financial statements in the Prospectus.



## XIV. GENERAL INFORMATION ON THE ISSUE

### *Responsible persons*

#### **The Manager**

RAIFFEISEN CAPITAL & INVESTMENT S.A., a financial investment services company authorized by the NSC according to the authorization no. 1990 of 30.06.2005, with headquarters in Romania, Bucharest, 15 Charles de Gaulle Square, 6<sup>th</sup> floor, sector 1, zip code 011857, registered at the Register of Commerce Office under no. J40/6102/1998, having the unique registration code no. 10715860, represented by Dana Mirela Ionescu, President – General Manager, as Manager for the Offering.

RAIFFEISEN CAPITAL & INVESTMENT S.A states that, after considering all reasonable measures, the information included in the Prospectus, according to its knowledge, is true and does not contain omissions that might significantly influence its content.

#### **The Issuer**

Societatea Națională de Transport Gaze Naturale Transgaz S.A., registered at the Register of Commerce under no. J32/301/2000, fiscal registration code RO 13068733, with headquarters at Mediaș, Sibiu county, Piața C. I. Motaș no. 1, represented by Mr. Ioan Rusu, as General Manager.

Societatea Națională de Transport Gaze Naturale Transgaz S.A states that, after considering all reasonable measures , the information included in the Prospectus, according to its knowledge, is true and does not contain omissions that might significantly influence its content.

#### **The legal advisor of the Manager**

The law firm Nestor Nestor Diculescu Kingston Petersen, authorized by Bucharest Bar through decision no. 228/1995, with headquarters in Romania, Bucharest, București - Ploiești Street, no. 1A, A Entrance, 4<sup>th</sup> floor, district 1, postal code 013681, having unique registration code. R8046151, represented by Cristina Filip, as partner.

Nestor Nestor Diculescu Kingston Petersen, as legal advisor of the Manager, states that, after considering all the reasonable measures, the legal information included in the Prospectus, excepting the further mentioned aspect, are, according to its knowledge, true and does not contain omissions that might significantly influence its content.

The above statement does not concern the financial instrument named Allotment Right as NNDKP did not offered advisory services related to it.

The legal responsibility for the information presented in the Prospectus in connection with the Allotment Rights is of Bostina si Asociatii law firm, authorized by the Bucharest Bar through decision no. 1861/2000, with headquarters in Romania, Bucuresti, Silvestru Street, no.12, 2<sup>nd</sup> district, postal code 0011823, having unique registration code R8078374, represented by Narcisa Oprea, as associate, which states that after considering all the reasonable measures, the legal information included in the Prospectus related to the Allotment Rights, are, according to its knowledge, true and does not contain omissions that might significantly influence its content.

#### **The technical advisor**

Romanian American Enterprise Fund, with headquarters in 1209 Orange Street, Wilmington, New Castle, Delaware, S.U.A. and having offices in 545 Fifth Avenue, Suite 300, New York, NY, S.U.A., represented by Horia Manda..

The Romanian American Enterprise Fund, as technical advisor, states that, after considering all reasonable measures, the information included in the Prospectus, according to its knowledge, is true and does not contain omissions that might significantly influence its content.

**The financial advisor**

BDO CONTI AUDIT S.R.L., with headquarters in Bucuresti, Calea Serban Voda no. 90-92, district 4, registered at the Trade Registered Office under no. J 40 / 22485 /1994, unique registration number RO 6546223, represented by Sorin Caian.

BDO Conti Audit SRL, as financial advisor, states that, after considering all reasonable measures, the information included in the Prospectus, according to its knowledge, is true and does not contain omissions that might significantly influence its content.

***Interests of individuals and entities participating in the issue/offering***

Raiffeisen Capital & Investment, as Manager, states that it has no important interest for the Offering, except for the interests deriving from the smooth execution of the contract for financial investment services concluded with the Issuer.

Nestor Nestor Diculescu Kingston Petersen law firm, as legal advisor, states that it has no important interest for the Offering, apart for the interests deriving from a good execution of the contract for legal advisory services concluded with the Manager.

Bostina si Asociatii law firm, as legal advisor, states that it has no important interest for the Offering, apart for the interests deriving from a good execution of the contract for legal advisory services concluded with the Manager.

BDO Conti Audit S.R.L., as financial advisor, states that it has no important interest for the Offering, apart for the interests deriving from a good execution of the contract for financial advisory services concluded with the Manager

Romanian American Enterprise Fund, as technical advisor, states that it has no important interest for the Offering, apart for the interests deriving from a good execution of the contract for technical assistance concluded with the Manager.

***Information regarding the Shares to be offered / admitted to trading***

All the Issuer's shares, namely both the Existing Shares and the newly Offered Shares, are of the same class, namely ordinary shares. Therefore, all the shares have the same characteristics and are nominative, indivisible, issued in dematerialised form and grant their holders equal rights.

According to the provisions of the Articles of Association, the registration of shares and securities issued by Transgaz is kept by the Central Depository according to the regulations issued by the National Securities Commission. The Central Depository allocated for the shares the ISIN Code: ROTGNTACNOR8 and the CFI Code: ESVUFR.

The shares were issued when the Issuer was formed following the reorganisation of SNGN Romgaz by split according to the Government Decision 334/2000 and Companies Law and, to

the extent that, subsequent to the Offering, the Shares will be accepted for trading, capital market regulations will also apply.

The currency of the issue is RON.

All the Issuer's shares have equal value and grant their holders equal rights. To the extent that, subsequent to the Offering, the Shares will be accepted to trading on the BSE, the following legal provisions in brief will add to the rights attached to the Shares:

- a) the right to participate at the General Meetings, directly or by representation, based on special power of attorney;
- b) the right to vote within the General Meetings;
- c) the right to elect and to be elected in the management structures of the Issuer;
- d) the right to dividends;
- e) the preference right, right relating to a share capital increase, granting the shareholder the opportunity to subscribe newly issued shares before other subscribers, protecting him/her from the risk of dilution of the share capital quota held prior the increase;
- f) the right to be assigned free shares, in case of share capital increases out of internal resources;
- g) the right to information, right with a complex content pursuant to which the shareholders can ask, among others, information concerning the shareholders structure, the register of decisions and meetings of the General Shareholders Meetings and the Board of Directors which has competences assigned by the General Meeting, as well as the yearly financial statements, the annual report of the Board of Directors, the proposal regarding dividend distribution and the documents relating to the subjects included on the agenda of General Shareholders Meetings and may ask questions, in writing, to the Board of Directors;
- h) the right to the due part resulting from the Issuer's winding up;
- i) the right to question in court the decisions of General Meetings or Board of Directors, made according to the powers assigned to it;
- j) the right to withdraw from the company, in strictly determined circumstances;
- k) the right to decide the conclusion of legal deeds having a significant value in relation with the Issuer's assets;
- l) the right to inform the internal auditors about the facts they think that should be checked;
- m) the right to propose the initiation of an action in responsibility against the founders, administrators, directors and financial auditors for damages caused by them violating the duties towards the Issuer.

Moreover, certain rights can only be exercised by the shareholders holding a certain quota of the share capital:

- a) the right to ask the calling of the General Meeting, rights recognised to shareholders representing, individually or together, at least 5% of the share capital;
- b) the right to ask new subjects to be added to the agenda of the General Meeting, right recognised to shareholders representing, individually or together, at least 5% of the share capital;

- c) the right to ask the appointment of some experts in order to analyse certain management operations, right recognised to one or several shareholders representing, individually or together, at least 10% of the share capital;
- d) the right to initiate in their name but on the Issuer's account an action against the founders, administrators, directors and financial auditors, right recognised to shareholders representing, individually or together, at least 5% of the share capital;
- e) the right to request the auditors to check the facts they communicated, right recognised to shareholders representing, individually or together, at least 5% of the share capital;
- f) the right of a significant shareholder to ask the calling of the general meeting of shareholders for the election of directors, using the cumulative vote method.

According to Companies Law, the shareholders must exercise their rights in good faith, observing the legal rights and interests of the Issuer and the other shareholders.

### ***Right to dividends***

According to Companies law, the ordinary general meeting, among others, has the obligation to discuss and approve the yearly financial statements, namely to decide the value of the dividends. The ordinary general meeting will gather within maximum 5 months from the end of the financial period. In case profit is registered, the General Meeting will decide upon the possibility to distribute it as dividends.

The share capital will be restored or reduced before making any profit distribution, in case losses of the net asset are registered.

Dividends will be paid to the shareholders pro rata with their participation quota to the Issuer's paid up share capital.

According to Capital Market Law, applicable after the Shares are accepted to trading, the identification of shareholders to receive dividends will be decided by the general shareholders meeting and will occur within minimum 10 days after the respective general meeting.

In accordance to the provisions of the article 1 letter f) of the Government Ordinance no. 64/2001 regarding profit distribution within national companies and companies fully or mainly held by the state, as well as autonomous companies, considering the issuer's status, the law requests the distribution as dividends of at least 50% of the profit determined under the conditions provided by this law.

According to Companies Law, the date on which dividends are paid is the date set out by the ordinary General Meeting determining the dividend, provided that such dividends are paid to the shareholders no later than 6 months from the date on which the yearly financial statements for the financial year then ended are approved.

The decision of the general meeting regarding dividends will be submitted to the Register of Commerce Office within 15 days in order to be registered and published in Romania's Official Gazette, Part IV.

In case the General Meeting fails to set out a term for the payment, the dividends shall be paid in maximum 60 days from the publishing date of the General Meeting of Shareholders resolution setting out the dividends, in the Official Gazette of Romania, Part IV, after this date the Issuer

being in delay. The resolution is enforceable title, based on which the shareholders can start the enforcement procedure against the Issuer, according to the law.

In case dividends are not paid within this deadline, the Issuer will pay damages-interests for the delay period, at the legal interest rate, unless the decision of the General Meeting approving the financial statements for the ended financial year contains a higher interest rate.

Dividends paid against legal provisions are returned if the Issuer proves that shareholders knew the default or, considering the circumstances, they should have known it.

The right to action for returning dividends paid against the legal provisions is prescribed within 3 years from the date of payment thereof.

Also, the right to ask the dividends payment is prescribed within 3 years from the date set out by the general meeting for the payment thereof.

The dividends due after the date of share transfer belong to the assignee, unless the parties agree otherwise.

According to NBR Regulation no. 4/2005 republished, the repatriation of net income in the form of dividends obtained from capital operations by non-residents may be carried out without restrictions.

The Romanian law does not regulate shares with cumulative dividend.

### ***Right to vote***

Each share issued by the Issuer grants the holder the right to a vote in the General Meeting.

In case the shares are entailed by a right to usufruct, the right to vote granted by these shares belongs to the usufructuary in ordinary General Meetings and to the bare owner in extraordinary General Meetings.

In case of pledged shares, the right of vote belongs to the owner.

Shareholders may participate and cast votes in the General Meeting by representatives, based on a special power of attorney given for the respective meeting. According to art. 13 of the Articles of Association, after Transgaz shares are accepted for trading on a regulated market, the representation of other shareholders than the State in the general shareholders meeting may be carried out by other people than the shareholders, except for Transgaz directors, managers and employees, based on special power of attorney according to NSC regulations.

Shareholders that cannot exercise their rights, as well as legal persons, may be represented by their legal representatives who, at their turn, may grant power of attorney to other persons for the respective General Meeting.

The method of obtaining the special power of attorney form for the representation at General Meetings will be mentioned in the convening notice of the General Meeting. The powers of attorney will be made available to shareholders on the Issuer's website or at its headquarters and other locations decided by the Issuer and mentioned in the convening notice.

Powers of attorney will be submitted in original at the Issuer's headquarters, 48 hours before the meeting, under the sanction to lose the voting right within the meeting. These will be kept by the Issuer and mentioned in the minutes. According to the Articles of Association, the special power of attorney is valid only for the general meeting for which it was issued and will have the content

mentioned by the law. Similar provisions are included in the Capital Market Law, applicable to the issuer after the shares are admitted to trading. The votes mentioned in the power of attorney may be cast only in the manner desired by the shareholder.

The members of the Board of Directors, managers or officers of the Issuer cannot represent the shareholders, such a decision being void unless without their vote the requested majority would be not obtained.

Also, the shareholders having the capacity of members of the Board of Directors cannot cast votes, based on the shares they hold, personally or by proxy, regarding their discharge of liability or a matter related to them or their management. Still, they may cast votes in connection to the yearly financial statements if the majority requested by the law or the Articles of Association cannot be achieved without their vote.

The shareholder who, within a certain operation, has, either personally or as attorney of another person, an interest contrary to that of the Issuer, must refrain from the deliberations regarding the respective operation. The shareholder violating this provision is liable for the damages caused by the Issuer unless without his vote the requested majority would have been obtained.

The shareholders cannot assign their own right to vote, any agreement regarding the exercise of the right to vote in accordance with the instructions given or the proposals of the Issuer or of the persons with representation competence is null.

#### ***Preference right in case of a share capital increase***

According to Companies Law, the share capital may be increased by issuing new shares or by increasing the nominal value of the existing shares, by new contributions in cash and/or in kind from the shareholders. Also, new shares can be issued from the available reserves, except the legal reserves, as well as out of benefits or issue premiums, or by compensating certain liquid payables claimable from the Issuer against its shares. The share capital cannot be increased and new shares cannot be issued until the subscribed shares from a previous issue have been fully paid.

According to the legislation regarding the capital market, applicable after the Shares are admitted to trading, the share capital increase by contributions in cash is made by issuing new shares, offered for subscription:

- to the holders of preference rights, belonging to the existing shareholders on the registration date who have not alienated them within the trading period, if the case may be, or acquired within the trading period thereof;
- to the investing public, when new shares have been not entirely subscribed during the period of exercising of the preference right, unless the Issuer decides to cancel the same within the extraordinary General Meeting.

The shares issued in order to increase the share capital will be offered for subscription first to the existing shareholders, pro rata to the number of shares held.

The existing shareholders, following the exercise of the preference right, will benefit, within the term decided by the extraordinary General Meeting, from the priority to subscribe newly issued shares before potential investors.

According to capital market legislation, applicable after the Issuer's shares are admitted to trading, the number of preference rights to be distributed to the existing shareholders will be equal to the number of registered shares in the Issuer's register on the registration date.

Preference rights are granted to all the shareholders registered in the Issuer's register on the registration date, irrespective of their participation in the extraordinary general meeting or the vote cast in connection to the share capital increase.

According to Companies Law, the period for exercising the preference rights cannot be less than one month from the date on which the decision was published in Romania's Official Gazette, Part IV.

After the expiry of the period during which the existing shareholders could have exercised their preference right, the shares can be offered to the public for subscription.

The share capital increase performed by violating the provisions of the Companies Law regarding the exercise of the preference right is cancellable.

The preference right of the shareholders can only be limited or suspended by the decision of the General Meeting.

The Board of Directors will submit to the extraordinary General Meeting a written report setting out the reasons for limiting or suspending the preference right, also including the manner of determining the issue value of the shares.

According to the provisions of the Capital Market Law, the extraordinary General Meeting may decide to suspend the preference right the law grants to shareholders in case of share capital increase by contribution in cash. This decision will be validly passed if minimum three quarters of the total share capital holders participate at the General Meeting and based on the vote of shareholders holding at least 75% of total voting rights. Similar provisions are included in the Articles of Association.

According to the provisions of Companies Law, shareholders' preference right may be suspended or limited only based on the decision of the extraordinary General Meeting made in the presence of three quarters of the subscribed share capital, based on the majority of the votes cast by the shareholders present. In the absence of more restrictive terms according to Capital market law regarding the cancellation of the preference right in case of share capital increases by contribution in kind, the provisions of Companies Law will apply.

According to the provisions of the Articles of Association, the decision of the general meeting or, as the case may be, the decision of the board of Directors regarding the share capital increase will expressly include:

- number of preference rights necessary to acquire a new share;
- subscription price for new shares based on the preference rights and the period during which the subscription will take place;
- price at which the new shares are offered following the subscription based on the preference rights, as the case may be.
- any other compulsory information according to the law.

According to capital market legislation, applicable after the Shares are accepted to trading, the sale price to the public of the shares remained unsubscribed within the period of exercising the

preference right is higher than the share subscription price paid by the holders of preference rights.

The number of shares to be issued in case of the share capital increases by contribution in cash performed with the cancellation of the preference right is determined by the Issuer's Board of Directors and is equal to the ratio between the contributed value, set out in compliance with the related provisions and the highest of the following values:

- average weighted trading price corresponding to the last 12 months preceding the date of the extraordinary general meeting;
- value per share calculated based on the net asset value as per the Issuer's last financial statements published and audited;
- nominal value of the share.

Besides the above, see Chapter IX.2 Section - Share capital, as it concerns special preference rights in case of the share capital increase by the value of certain land for which the Issuer holds or will hold ownership certificates.

After the shares are accepted to trading, in case the extraordinary general meeting makes the decision for trading the preference rights, these will be traded on the BSE – rights category, in compliance with the specific regulations of the respective market.

#### ***Right to participate at share capital increases out of internal resources***

The extraordinary general meeting may decide to distribute the net profit for free shares to the existing shareholders. The distribution of free shares will be made pro rata with the number of shares held. This right to free shares occurs in case of share capital increases out of internal sources.

#### ***Right upon the part due following the Issuer's winding up***

This right may be used by shareholders in case the Issuer ceases to exist, having the right to receive the due part following to the winding up.

After the winding up is completed, the liquidators prepare the final financial statement, showing the due part of the issuer's assets for each share, accompanied by the auditors' report. The yearly financial statement signed by the liquidators will be submitted to the Register of Commerce Office and will be published in Romania's Official Gazette, Part IV.

Any shareholder can oppose within 30 days from the publication in Romania's Official Gazette, Part IV. The opposition will be submitted to the Register of Commerce Office that, within 3 days from submission, will register it and submit it to the competent court.

The directors will transmit to the liquidators a report regarding the administration, for the time elapsed from the last approved financial statements until the liquidation was initiated.

In case one or several directors are appointed liquidators, the report regarding the administration will be submitted to the Register of Commerce Office and will be published in Romania's Official Gazette, Part IV, together with the final winding up balance sheet.

Any shareholder may oppose within 15 days from the publication.



In case this term expires without opposition, the financial statements are deemed approved by all shareholders, and the liquidators are free, subject to the distribution of the Issuer's assets.

The amounts due to shareholders, not received within two months from the publication of financial statements, will be deposited to a bank or one of the units thereof, mentioning the name and first name of the shareholder.

### *Share repurchase*

Companies Law provides the interdiction for a company to subscribe its own shares, but offers the possibility to acquire own shares in certain circumstances.

If a company's shares are subscribed by a person acting in his/her own name, but on behalf of the Issuer, it is deemed that the subscriber subscribed the shares for himself/herself, being obliged to pay the value thereof.

In case of a share capital increase, the members of the Board of Directors are obliged to pay the value of the subscribed shares violating the principles above.

A company is allowed to acquire its own shares, either directly, either by a person acting in his/her own name, but on the company's behalf, in compliance with the following terms:

- the extraordinary General Meeting decides to purchase own shares;
- the nominal value of own shares, including those already in its portfolio, cannot exceed 10% of the subscribed share capital;
- the transaction only refers to fully free shares;
- the payment of the shares thus acquired will be made only out of the distributable profit and the Issuer's available reserves, entered in the last approved financial statements, except for the legal reserves.

In case own shares are acquired in order to be distributed to the Issuer employees, the shares must be distributed within 12 months from the acquisition date.

In case the shareholders exercise their right to withdraw from the company and to ask the purchase of their shares by the latter, according to the law, the restrictions above do not apply, except for the condition that the payment of the own shares acquired by the Issuer be made only out of the distributable profit and available reserves, except for the legal reserves entered in the last approved financial statements.

In case the General Meeting passes a decision authorising the purchase of own shares, the decision of the extraordinary General Meeting will set the conditions for acquiring the shares, including:

- the maximum number of shares to be acquired;
- the period for which the authorisation is granted, which could not exceed 18 months from the date on which the decision is published in Romania's Official Gazette, Part IV;
- their minimum and maximum value (in case of acquiring with certain obligations).

The above mentioned restrictions will not apply in the following cases:

- (i) shares acquired as a result of decision of the general meeting to decrease the share capital;
- (ii) shares acquired as a result of a universal transfer;

- (iii) shares fully free, acquired following a court order, during a foreclosure procedure against a shareholder, debtor of the Issuer;
- (iv) shares fully free, obtained free of charge.

Own shares acquired violating the legal provisions or the cases where the legal restrictions do not apply must be alienated within 1 year from acquisition.

In case the nominal value of own shares acquired by the Issuer in the above mentioned cases at letters (ii), (iii) and (iv), either directly, either by a person acting in his/her own name, but on the Issuer's behalf, including the nominal value of own shares already in its portfolio, exceeds 10% of the subscribed share capital, the shares exceeding this percentage will be alienated within 3 years from the acquisition.

If the shares are not alienated within the above mentioned periods, they must be cancelled, the Issuer being obliged to reduce its share capital accordingly.

Own shares acquired by the Issuer do not give the right to dividends during the period in which they are held by the latter, and the right to vote granted by such shares will be suspended during the period in which the Issuer holds such shares.

Companies Law assimilates the acquisition of own shares with the constitution of a pledge over own shares, directly or indirectly, through persons acting in their own name, but on the company's behalf.

In case the shares are included in the assets of the balance sheet, the liabilities will contain a reserve with the same value that cannot be distributed.

The report of the Board of Directors accompanying the yearly financial statements will include the following, among others:

- reasons of purchases performed during the financial year;
- number thereof and nominal value of the shares acquired and sold during the financial year and the share capital quota these account for;
- value of acquired shares (in case of acquiring with certain obligations)
- number and the nominal value of all acquired shares and held by the Issuer and the share capital quota these account for.

At present, the Issuer does not hold own shares.

After the Issuer's shares are accepted to trading, the repurchase procedure of the shares will observe the provisions of the Regulation (CE) no. 2273/2003 of the Commission of 22 December 2003 for setting out the application norms of Directive 2003/6/CE of the European Parliament and the Council regarding the derogations provided for the repurchase programs and stabilisation of securities.

According to this regulation, in order to benefit from the derogation provided at the article 8 of Directive 2003/6/CE of the European Parliament and the Council, a repurchase program must observe the provisions of the regulation, among which those having as sole objective the capital decrease (as value or number of shares) or the compliance with the obligations regarding:

- debentures convertible in ownership deeds;

- programs of share options or other shares distributions to the employees of the Issuer or an associate company.

In case the Issuer carries out operations within a repurchase programme, it cannot acquire shares at a price higher than the highest of the price of the last independent transaction or the highest independent quotation on the regulated market on which the respective acquisition takes place.

The Issuer cannot purchase more than 25% of the average daily quantity of shares that are transacted on the regulated market on which the acquisition takes place, except for the case in which market liquidity is extremely low, provided that:

- it informs NSC in advance about its intention to exceed the ceiling;
- it informs the public accordingly regarding this possibility to exceed the ceiling;
- it doesn't exceed 50% of the average daily volume.

In order to benefit from the derogation provided at art. 8 of Directive 2003/6/CE of the European Parliament and Council, during its participation to a repurchase program, the Issuer cannot perform the following operations:

- sale of own shares during the program;
- trading during the "closed period";
- operations with securities for which the Issuer decides to postpone the publication of privileged information, in accordance with article 6 par. (2) of Directive 2003/6/CE of the European Parliament and Council.

The above mentioned interdiction does not apply:

- in case the Issuer initiated a repurchase program based on an exact program;
- in case the coordinator of the subscription syndicate is a investment company or credit institution that makes decisions regarding the dates on which to acquire the Issuer's shares independently thereof and without being influenced thereby.

The Issuer states that there are no securities convertible to shares, except for the Allotment Rights issued in accordance with Shareholders General Meeting's Decesion no. 11/17.10.2007, completed by Decesion no. 14/2007 according to the NSC note no. 53/31.10.2007, no agreements concluded regarding transferable securities, together with subscription rights and there are no acquisition rights or obligations regarding authorised but not paid in capital that are registered except for (i) the obligation to increase the share capital by the value of 14 plots of land for which ownership certificates were issued and that were not included in the Issuer's share capital (please consider also the Chapter IX.2, Section Share capital); and (ii) the obligation of the ministry of Economy and Finance to grant shares to entitles persons out of the Issuer's available share capital as repair measure according to law no. 10/2001, purpose for which, in 2004, the Ministry of Economy and Commerce (currently Ministry of Economy and Finance) published an offer for privatisation through restitution, including a quota of 5% of Transgaz share capital.

### ***Right to elect and to be elected within management bodies***

With regard to the election of a shareholder in the Board of Directors, Companies Law recognises the right of a shareholder holding at least a quarter of the share capital, or is director

of a company holding the mentioned quarter, to take office in more than five boards and/or supervision councils simultaneously, while for other persons, according to Companies Law, the right to exercise at most 5 mandates of director in joint-stock companies with headquarters in Romania is recognised.

With regard to the election of the members of the Board of Directors, the Articles of Association provide the possibility to elect members based on the cumulative voting method, in case a significant shareholder of the Issuer requests it.

According to Capital Market Law, applicable after the Issuer's shares are admitted to trading, the members of the Board of Directors may be elected using the cumulative voting method, but they are compulsorily elected using this method upon the request of a significant shareholder.

According to capital market legislation, using the cumulative vote method, each shareholder has the right to cast the cumulated votes (votes obtained following the multiplication of the votes held by any shareholder, according to the participation to the share capital, by the number of directors that are to form the Board) to one or to several persons to be elected in the Board of Directors.

A significant shareholder may request maximum once in a financial year the calling of a General Meeting having on the agenda the election of directors using the cumulative vote method.

The shareholders may make written proposals addressed to the directors, in order to apply the cumulative vote method, at least 10 days before the date of the General Meeting having on the agenda directors' election or revocation. The application of this method is subject to the vote within the general meeting only in case the request is made by shareholders holding insignificant stakes.

### ***Right to information***

Pursuant to this right, shareholders may ask: (i) information regarding shareholding structure, to see the registers of debates and general meetings and board of directors meetings exercising the duties assigned by the general meeting, (ii) consulting and eventually provision of copies of the yearly financial statements, annual report of the Board of Directors, proposal regarding dividend distribution, (iii) to consult the papers and documents relating to the subjects included in the agenda of general shareholders meetings, (iv) information regarding the results of the vote for decisions passed in the General Meeting, (v) to see and ask copies of the auditors report to be presented at the General Meeting.

- *Shareholders' right to ask to see the registers of debates and sessions of General Meetings and Board of Directors exercising the duties assigned by the General Meeting*

Companies Law expressly contains the directors' obligation to make available to shareholders, upon their demand, information regarding shareholding structure, as well as the register of sessions and debates of General Meetings. At the same time, as the law allows the General Meeting to delegate a part of its duties to the Board of Directors, the things above will also refer to the register of sessions and debates of the Board of Directors exercising the duties assigned by the General Meeting.

Also, shareholders have the right to ask and to obtain, on their expense, certificates comprising information regarding shareholding structure.

- *Shareholders' right to consult the annual financial statements, the annual report of the Board of Directors, the proposal of dividend distribution*

The right to ask to see and, upon demand, to obtain copies of the yearly financial statements, the annual report of the Board of Directors, the proposal regarding dividend distribution is recognised by the law. These documents are made available to shareholders at the Issuer's headquarters starting with the date of the General Meeting.

- *Shareholders right to request to consul the papers and documents related to the subjects included in the agenda of General Meetings*

The shareholders, among others, also have the right to participate at General Shareholders Meetings and to have access to sufficient information regarding the subjects to be debated by the General Meeting.

In order to grant the shareholders the possibility to exercise this right, according to the provisions of the Articles of Association, the Issuer makes available to them, at least 5 days before the date of the General Meeting, all documents to be discussed and approved by the General Meeting, as well as the powers of attorney and the papers containing the information for each point entered on the agenda. The shareholders can obtain, on demand, copies of such papers and documents.

Similar provisions in connection to the first gathering of the general meeting are included in the Capital Market Law applicable to the Issuer after its shares are accepted to trading. Shareholders may access the documents and information by accessing the Issuer's web site or at its headquarters

- *Shareholders' right to be informed regarding the results of the vote for the decisions made at the General Meeting*

On demand, each shareholder will be informed regarding the results of the vote for the decisions made at General Meetings. The results of the vote will also be published on the Issuer's website within maximum 15 days from the date of the General Meeting.

- *Shareholders' right to consult the auditor's report, prepared for the General Meeting, in a strictly determined time period*

The right to consult the auditor's report is mentioned in the Companies Law and may be exercised by the shareholders within 15 days prior the date of the General Meeting.

The auditor's report must be submitted at the issuer's headquarters and branches 15 days before the General Meeting. Copies may be delivered upon request.

- *Right to address questions, in writing, to the Board of Directors*

Any shareholder has the right to address to the Board of Directors written questions regarding the Issuer's activity, before the date of the General Meeting. The answers will be given at the General Meeting.

- *Right to inform the internal auditors about some deeds considered necessary to be verified*  
Any shareholder has the right to inform the internal auditors about deeds that he/she thinks that should be verified. The auditors will consider such deeds when preparing their report for the Board of Directors.

***Right to bring to court the decisions of General Meetings or of the Board of Directors made according to the tasks assigned***

Any shareholder that did not participate at the General Meeting or that cast his/her vote against and asked this to be included in the minutes of the meeting has the possibility to bring to court its decision contrary to the law or the Articles of Association, within 15 days from the publication in Romania's Official Gazette, Part IV.

In case reasons of absolute nullity are invoked, the right to action cannot be prescribed.

Once the action in cancellation is initiated, the shareholder can request the president of the court to suspend the decision in question. If the president agrees the suspension, he/she may force it to pay bail.

The suspension ordinance can be attacked by appeal, within 5 days from its issue.

The definitive annulment decision must be mentioned in the Register of Commerce and published in Romania's Official Gazette, Part IV.

***Right to withdraw from the company, in strictly determined cases***

Issuer's shareholders, who do not agree with the decisions of the General Meeting, have the right to withdraw from the company in certain conditions set out according to the law.

Companies Law and the Articles of Association provide the right of shareholders to withdraw from the company and to request their shares to be bought when they disagree with the decisions made regarding: (i) change of the main object of activity; (ii) relocation abroad of the registered office; (iii) change of the company's legal form; (iv) merger or split.

The capital market legislation, applicable to the Issuer after the shares are admitted to trading on a regulated market, provides the right of the shareholders to withdraw from the company in case they do not agree with the decisions made by the general meetings regarding mergers or splits and that trigger the allocation of shares that are not admitted to trading on a regulated market, having the right to obtain the value of the shares determined according to the legal provisions.

Following a public offering for purchase addressed to all holders and for all their holdings, a minority shareholder has the right to request the offeror holding more than 95% of the share capital to buy its shares at a fair price.

***Right to decide the conclusion of legal documents having significant value***

According to the provisions of Companies Law, the Board of Director may conclude legal documents in the name and on behalf of the Issuer, by which to acquire goods or to sell, lease, change or pledge goods in its patrimony the value of which exceeds half of the book value of its assets as of the date of the conclusion of the legal documents, only upon the approval of the extraordinary General Meeting.

Subsequent to the admission to trading of Issuer's shares, according to the provisions of Capital Market Law, the prior approval of the extraordinary General Meeting is necessary for the Issuer's directors or managers to conclude legal documents with significant value in comparison to the Issuer's assets, as follows:

- in case the value of the documents for acquiring, selling, exchanging or pledging assets of the issuer's non-current assets the value of which exceeds, individually or cumulatively, during a financial year, 20% of the total non-current assets, less receivables;
- in case of closing tangible assets for a period longer than 1 year, the value of which exceeds, individually or cumulatively, as compared to the same contractual partner or related persons acting together, 20% of the total non-current assets, less the receivables as of the date on which the legal document is concluded,
- in case of associations longer than 1 year, exceeding the same value.

Any of shareholders can ask the court the cancellation of the deed concluded without complying with these provisions included in the Capital Market Law.

### ***Other rights of shareholders***

Certain rights are granted by law only to the shareholders holding a certain percentage of the share capital as follows:

- upon the request of shareholders holding individually or jointly at least 5% of the share capital, the auditors are obliged to verify the claimed facts. In case the facts are confirmed, they will be included in a report that will be communicated to the Board of Directors and made available to the General Meeting; in this case, the Board of Directors is obliged to call the General Meeting;
- the right to request the calling of the General Meeting is recognised to shareholders representing, individually or jointly, 5% of the share capital; the General Meeting will be called within 30 days at most and will gather within maximum 60 days from the date on which the request was received;

In case the Board of Directors does not call the General Meeting, the court competent at the Issuer's headquarters may authorise the calling thereof by the shareholders that have formulated the request.

- one or several shareholders representing, individually or jointly, at least 10% of the Issuer's share capital may request the court to appoint one or several experts to analyse certain operations managed by the Issuer and to elaborate a report to be handed to them and, at the same time, to be officially submitted to the Issuer's Board of Directors and internal auditors, which will also bear also the experts' fees;
- the right to bring to court the action against founders, directors, managers and financial auditors. If the General Meeting does not bring to court the action against directors, managers and financial auditors for damages caused to the Issuer by them by violating their duties towards it, and does not take into account the proposal of one or several shareholders to initiate such action, shareholders representing, individually or jointly, at least 5% of the share capital have the right to bring to court an action for damages, in their own name, but on behalf of the Issuer, against any of the above-mentioned persons. The

persons exercising this right must have had the capacity of shareholder at the time when the matter brought to court was discussed in the General Meeting.

- The right of a significant shareholder to request the calling of a general shareholders meeting for electing the directors using the cumulative vote method.

The Issuer states that a new share issue is not scheduled, except for the obligation to increase the share capital by the incorporation of the lands for which ownership certificates were obtained or some other plots of land for which ownership certificates will be obtained. At present, there is no information concerning other future issues of securities.

Besides the above elements, see Chapter IX.2, Section - Share capital for details on share capital increase by the value of land for which the Issuer holds or will hold ownership certificates. According with the Shareholders Decision no. 12/17 October 2007, the necessary operations for a share capital increase with the value of some property for which the Issuer obtained or it will obtain property documents, is postponed until the shares are admitted to trading on BSE

### ***Free transfer***

According to the GD no. 1095/2005 for the approval of the Methodological Norms for the enforcement of Title VII of Law 247/2005, the shares distributed/allocated according to the regulated procedure for finalising share allocation following the offer for privatisation through restitution of a quota of 5% of the Issuer's share capital (see Chapter IX.3 – Section – Persons entitled to indemnities who subscribed within the offer for capital available prior to the application of Law 247/2005) can be traded on the stock exchange or on a regulated market only after the expiry of a period of 6 months starting from the date on which the shareholder certificate was issued. Share distribution will be made after a period of 6 months from trading. The price at which shares will be allocated will be the weighted average trading price for the first 6 trading months, communicated by the operator of the respective market.

According to the agreement signed by Fondul Proprietatea on 24 October 2007, Fondul Proprietatea agreed that for a period of 6 months, starting with the admission to trading on a regulated market operated by BSE, it will not sell or donate, or promise that it will sell or buy, or offer, or pledge, or grant any kind of options or rights, or take any kind of commitment to sell or to sign any kind of contract related with the owned Shares in the Issuer's share capital or any rights attached to such, including Allotment Rights. For further information please see *Dilution* section.

### ***Compulsory withdrawal***

Capital Market Law and the provisions of the Regulation of the NSC no. 1/2006 concerning the issuers and operations with securities, as modified and supplemented, grants the major shareholder the right to ask the other shareholders to sell the shares they hold to it.

This right granted to the major shareholder occurs only if, after the completion of a purchasing offer addressed to all the Issuer's shareholders and having as object all shares held by them, the major shareholder either holds shares representing more than 95% of the share capital, or it purchased within the respective offer a number of shares representing more than 90% of the shares offered.



According to the provisions of Capital Market Law and the Regulation of the NSC no. 1/2006 concerning issuers and operations with securities, as modified and supplemented, a minor shareholder has the right to ask to the offeror holding more than 95% of the share capital to purchase its shares at a fair price. This right occurs only as result of a public purchasing offer addressed to all shareholders and for all shares held.

### ***Compulsory public take over offering***

According to the provisions of Capital Market Law, if one individual holds, following its acquisition or the ones of its partners, more that 33% of the voting rights in a company, he/she is obliged to launch a public offering addressed to all holders of securities and having as object all the securities they hold, as soon as possible, but not later than 2 months from the time it reaches the respective holding.

Until carrying out the compulsory public offering, the rights relating to securities exceeding the threshold of 33% of the voting rights upon the Issuer are suspended, and the respective shareholder and its partners can no longer acquire shares of the same issuer by other operations.

Carrying out such a public take over offering is not compulsory if more than 33% of the rights to vote within the Issuer were acquired as result of an exemption transaction, as defined by Capital Market Law.

Also, in case the acquisition of more than 33% of the rights to vote within the Issuer is performed without intention, the holder of such position has the following alternative obligations:

- to carry out a public offering according to the terms stated above;
- to sell a number of actions, in order to lose the position acquired without intention

The Issuer does not have information regarding public take-over offerings made by third parties in connection to its capital since its establishment and until now.

### ***Information regarding the Allotment Rights attached to the Newly Issued Shares***

#### ***General Information***

In this Offering, the Issuer issues a number of 1,384,956 Allotment Rights attached to the Newly Issued Shares. For each New Issued Share an Allotment Right is issued.

The New Issued Shares are a total of 1,384,956, out of which a number of 1,117,384 shares are subject of this Offering, the rest of 207,572 shares being subscribed and fully paid by Fondul Proprietatea by exercising its pre emptio rights.

The Allotment Rights are allotted, once the Offering is closed successfully, to the persons who subscribed and fully paid the shares within the Offering or by exercising their pre emptio rights.

Out of the total of 1,384,956 Allotment Rights, 207,572 Allotment Rights will be allotted to the Fondul Proprietatea, and the rest of 1,177,384 Allotment Rights will be allotted to the subscribers in the Offering, each subscriber being entitled to an equal number of Allotment Rights to the Shares he has subscribed. According to the lockup agreement signed by Fondul Proprietatea, the 207,572 Allotment Rights cannot be sold, transferred, pledged or transacted.

The Allotment Rights are freely transferable within the regulated market, issued in dematerialized form and registered in account. The Register of Rights holders is created and updated by the Central Depository.

The Allotment Right certifies that its holder is entitled to one share, which he will receive once the share capital increase (Newly Issued Shares) is (are) registered with the Central Depository. The Allotment Rights holder does not have the right to dividends, the right to participate directly or through a representative in General Meetings, the right to vote in General Meetings, the right to elect or be elected in Issuer's management bodies or any other right stated by the Company Law.

The Allotment Rights cease to exist when the Newly Issued Shares are registered by the Central Depository on the name and account of the Allotment Rights holders. The Newly Issued Shares will be registered to the persons which are holders of Allotment Rights, as stated in the Register of Allotment Rights valid on the Settlement Day of transactions concluded in the last trading day of Allotment Rights, according to the rule - one Newly Issued Share – One Allotment Right.

Converting the Allotment Rights into Newly Issued Shares is automatically performed by the Central Depository, Allotment Rights holders not having to start any kind of procedure with the Central Depository or other entity to convert their rights.

Allotment Rights are converted into Newly Issued Shares in the moment they cease to exist.

#### *The rights of Allotment Rights holders*

Allotment Rights holders are entitled to receive Newly Issued Shares for their holdings once the share capital increase is registered with the Central Depository. Allotment Rights holders are entitled to receive the Issuer's reports elaborated according with the provisions art. 113 lit. A and B of NSC's Regulation no. 1/2006.

Allotment Rights holders have the right to receive for the Issuer the price paid for the Shares in the Offering, in case the share capital increase is irrevocable rejected by the delegated judge to the Trade of Registered Office. Thus, the amount to be reimbursed to the Allotment Rights holder is equal with the product between the number of his Allotment Rights and the Offering price of a Newly Issued Share. The amount reimbursed to Fondul Proprietatea is equal with the product between its Allotment Rights holdings and the price at which it subscribed Newly Issued Shares while exercising its pre-emption rights. The amounts will be reimbursed in a maximum of ten Business Days, starting with the day when the share capital increase is irrevocable cancelled by the delegated judge at the Trade of Registered Office.

#### *Allotment Rights holders' obligations*

The Allotment Rights holders will have the following obligations:

- to observe the provisions of Capital Market Law no. 297/2004
- to observe the regulations issued by BSE and by the Central Depository concerning the trading and settlement of transactions with Allotment Rights.

***Information regarding the Shares to be offered/admitted to trading***

*Information regarding any withholding applicable to the income generated from the securities and assuming or not assuming of the responsibility of the withholding by the Issuer.*

***a) Natural persons***

Both the dividends and the gains from securities transfer are considered income from investments, to which income tax applies.

***Taxation of income from dividends***

Starting 1 January 2006, the tax on the income from dividends is calculated by applying the 16% quota. The duty to determine and to withhold the tax on dividends belongs to the entity that pays the dividends, once these are paid to the shareholders. In case of distributed dividends, but that have been not paid until the end of the year in which the balance sheet was approved, the tax is due until 31 December of the respective year.

***Taxation of capital gains***

The gain or loss resulting from securities transfer is the positive or negative difference between the sale price and the purchase price for types of securities, after the deduction of the related costs.

The gain or loss resulting from the sale of securities is determined on the date on which each transaction is concluded, and the net gain will be determined at the end of the fiscal year upon the whole portfolio of traded shares by a shareholder in the respective year, with the positive difference between the gains and losses registered during the year as result of trading shares.

The transactions with shares are subject to a tax of 16% in case the Shares are sold within less than 365 days from the acquisition date, namely of 1% if the transaction takes place after the expiry of these 365 days. In case of securities traded on a regulated market, the tax will be calculated and paid by the holder until 25 January of the following year for the ended fiscal year.

***b) Legal persons******Taxation of dividends***

Romanian legal persons paying dividends to a Romanian legal person has the obligation to withhold and transfer the withheld tax on dividends to the state budget, until 25<sup>th</sup> day of the month following the one in which dividend is paid. This tax is calculated by applying a tax rate of 16% of the gross dividend paid.

In case distributed dividends are not paid until the end of the year in which the annual financial statements were approved, the tax on dividends is paid until 31 December of the respective year.

After Romania entered the European Union, dividends received from a Romania entity, mother company, a branch located in a member state are not subject to tax if the beneficiary of dividends holds minimum 15%, respectively 10%, starting with 2009, of its interests for an uninterrupted period of 2 years until payment date thereof.

***Taxation of capital gains***

The income obtained by the Romanian legal persons from trading securities are comprised calculus of taxable profit, to which a profit tax of 16% applies.

We state that the taxable profit is calculated as the difference between the income realised from any source and the expenses performed in order to realise income, in one fiscal year, minus income not subject to tax and adding non deductible expenses.

*Information regarding any withholding applicable to the income generated from the Allotment Rights and assuming or not assuming of the responsibility of the withholding by the Issuer.*

The fiscal regime of any income obtained from transferring the Allotment Rights is similar with the fiscal regime for transferring Shares, as it was presented above for natural and legal persons.

### ***Admission to trading for the Shares***

Following the successful conclusion of the Public Offering, the Issuer will take all the measures necessary for the shares to be accepted to trading on the regulated market of BSE.

### ***Admission to trading for the Allotment Rights***

The Issuer intends to request admission to trading for the Allotment Rights within the regulated market of BSE, equity sector, tier 3 – rights.

The Issuer and the Manager will take the following measures to have the Allotment Rights traded on BSE:

- Send to the NSC the request to register the rights, together with the Allotment Rights holders list and the Notification regarding the Offering's results.
  - Within the regulated market of BSE only NSC registered rights can be traded
  - The certificate for registering the Allotment Rights to NSC is the prove of registering the Allotment Rights with NSC
  - Thus, this phase can be completed only by obtaining such a certificate
  - On Allotment Date, the list with the Allotment Rights holders will be determined also
  - The number of Allotment Rights allotted to a subscriber is equal with the number of allotted Newly Issued Shares to that subscriber
  - The list of Allotment Rights holders is identical (name and number of securities allotted) with the subscribers' list which were allotted Shares, together with Fondul Proprietatea as holder of 207,572 of Allotment Rights allotted for the subscribed Shares while exercising its pre-emption rights.
- Submitting the certificate for registering the Allotment Rights issued by NSC to the Central Depository together with the list of Allotment Rights holders so as to create the Register of Allotment Rights holders.
  - The Central Depository will register the Allotment Rights in order to allow the admission to trading on a regulated market of BSE, giving an ISIN and a CFI code to the Allotment Rights issue
- The request for admission to trading of Allotment Rights within the regulated market of BSE, equity sector, tier 3 – rights

- The Manager will submit to BSE, on Issuer's behalf, the request for trading the Allotment Rights, together with the Prospectus and NSC's registration certificate of Allotment Rights as well as together with any other documents requested by BSE
- The admittance/non admittance of Allotment Rights to trading is decided by the General manager of BSE.

The Issuer and the Manager of the Offering commit to take all necessary measures to conclude in a short time the procedure for registering, admitting to trading, as well as converting the Allotment Rights into Newly Issued Shares. By taking the above described measures, the admission to trading is not guaranteed.

#### *Trading the Allotment Rights*

Allotment Rights trading is made according with BSE regulations, within an order-driven market.

The Allotment Rights will be traded for a period starting with the first trading day and lasting until they will be redrawn from trading.

The starting day of the Allotment Rights trading is one of the following:

- The date determined by adding two Business days to the date when the Central Depository's Notification is received, by which it announces BSE that all technical operations regarding the Allotment Rights holders' Register were concluded.
- OR
- The date jointly set by the Issuer and BSE's management, which cannot be earlier than two Business Days after the date when Central Depository's Notification was received.

The date in which Allotment Rights will be redrawn from trading, the last trading day of such instruments, is determined by adding two Business Days to the date when BSE received Central Depository's Notification by which it confirms that it received from the Issuer all necessary documents for the share capital increase. The property right transfer over the Allotment Rights, which were subject to a stock exchange transaction, will be done by the Central Depository according to BSE and Central Depository's regulations, in force at the specific transaction date.

#### *Expenses related to the Offering*

In case the Offering is fully subscribed, the Issuer estimates that the net funds to be received within the offering amounts to EUR 67,110,888 (in RON equivalent). Any expense related with this offering will be charged out of this amount.

According to the contract concluded between the Intermediary and Transgaz, the fixed cost borne by the Issuer is of RON 0,01, and in case that more than 90% of the Offering is subscribed, the Intermediary will receive a floating fee of 2.09% of the price of all shares sold within the Offering. The funds to be collected following the Offering will be decreased mainly because of:

- The NSC fee following the approval of the prospectus – 0.1% of the offering value

- BSE fee for trading the shares on POF Market section – 0.09% of the value of sales
- BSE fee for the admission and promoting to trading – RON 1200

### ***Dilution***

On 17 October 2007, the extraordinary general meeting approved the terms and conditions for the Issuer's capital increase by decision no. 11 published in the Official gazette no. 2880/22 October 2007.

Before the increase of the Issuer's share capital, the Romanian state, represented by the Ministry of Economy and Finance held 8,831,840 ordinary shares, corresponding to 85.012371%, and Fondul Proprietatea held 1,557,048 Shares, corresponding to 14.987629%.

Within the increase of Transgaz share capital, the Romanian state, represented by the Ministry of Economy and Finances waived its preference right for subscription, in order to fulfill the mandate granted in the "Privatisation Strategy", Government decision no. 1329/2004, regarding the mandate of the public institution involved and the approval of the privatisation strategy by means of public offering of some companies included in the portfolio of the Ministry of Economy and Commerce.

Fondul Proprietatea exercised its preference right for subscription, according to its share, the share capital of Transgaz being increased by the issue of a total number of 1,384,956 ordinary, nominal, dematerialised shares, having the nominal value of RON 10 each.

Out of this total number, 207,572 shares were subscribed and fully paid on on 23 October 2007 by Fondul Proprietatea as a result of exercising the preference right, and the rest of 1,177,384 shares are to be offered for subscription to the public within the initial primary public offering of Transgaz.

Following this capital increase, Fondul Proprietatea keeps its participation of 14.987629% (1,764,620 shares) in the share capital of Transgaz, while the Ministry of Economy and Finance, by waiving its preference right for subscription, will keep holding 8,831,840 shares, corresponding to a decreased percentage of 75.012371% of the total share capital.

În case the offering is successful, but the Offered Shares are not fully subscribed, the Ministry of Economy and Finance will held the same number of shares, 8,831,840 and the Fondul Proprietatea will held a number of shares according to its actual participation of 14.987629%.

According with the Decision no. 11/2007 and with the signed agreement on 24 October 2007, Fondul Proprietatea agreed that for a period of 6 months, starting with the admission to trading on a regulated market operated by BSE, it will not sell or donate, or promise that it will sell or buy, or offer, or pledge, or grant any kind of options or rights, or take any kind of commitment to sell or to sign any kind of contract related with the owned Shares in the Issuer's share capital or any rights attached to such.

The commitments of Fondul Proprietatea, as stated above, cease in each of the following cases:

- The prospectus is not submitted for NSC's approval until 31<sup>st</sup> of December 2007. The obligations to which Fondul Proprietatea agreed cease on 31<sup>st</sup> of December 2007.
- The offering is not successful, in which case the commitments of Fondul Proprietatea cease in the same day.

- The request for trading the Issuer's shares on the regulated market, after the closing of the offering, is not accepted by BSE, in which case the lock up agreement is no longer in force, starting with the day in which BSE rejected the request.
- The decision no. 11/2007, regarding the share capital increase, is canceled. The lockup agreement ceases to be in force starting with the date when the court decision becomes irrevocable and effective.

Moreover, Fondul Proprietatea agreed unconditionally and irrevocable not to sell, transfer, pledge or trade in any way the Allotment Rights attached to the subscribed and/or allocated Shares, if such an instrument is issued and admitted to trading on the regulated market of BSE.

## **XV. SUBSCRIPTION PROCEDURES AND DISTRIBUTION NETWORK**

### **1. Subscription Procedures**

The subscription within the present Offering can be made during the entire validity Offering Period (starting 26 November and until 7 December 2007 inclusively, meaning 10 Business Days). The subscription can be made at the headquarters of the Manager and at the local units of the Distribution Group, presented within this Offering Prospectus (see Section “*Distribution Network*”). The subscriptions can be made during the offering period on a daily basis, between 9:00 - 15:00 hrs. Bucharest time, from Monday to Friday during the entire subscription period and from 9:00 to 13:00 in the last day of the Offering Period. The subscription is made by filling in the Subscription form that will be available at the headquarters of the Managers and at the local units of the Distribution Group.

The minimum subscription is for a whole number of shares so that the value of one subscription is at least equal with 11 Shares.

Prior to filling in the Subscription Form, the Investors that do not use the services of a custodian agent should transfer the amount corresponding to the subscribed Shares to one of the Collection Accounts (please consider the section referring to the Collection Accounts).

The investors that do not have a bank account and wish to subscribe through Raiffeisen Bank network shall be opened a bank account with Raiffeisen Bank. This account will be mentioned in the Subscription Form as the current account to which the amounts corresponding to the unallocated shares will be transferred and (in case of over subscription) or as a consequence of the subscription cancellation (if applicable). In this case, the amount corresponding to the subscribed Shares will be transferred from this current account to one of the Collection Accounts by payment order.

The value of the subscribed shares must be paid in full or to be guaranteed by a custodian agent in order for the subscription to be valid. Thus, the subscribers must take into account possible transfer fees and, if applicable, account opening fees.

Upon filling in the Subscription Form, investors foreign natural persons will declare their tax residence (i.e. Romania, origin country or other country) on their own recognizance.

Individuals, resident or non resident, that are not customers of RCI and which do not use the services of a Custodian Agent may subscribe only through the branch network of Raiffeisen Bank SA or through Intercapital Invest.

Individuals, resident or non resident, that are customers of RCI and which do not use the services of a Custodian Agent may subscribe both through RCI and as well as through the branch network of Raiffeisen Bank SA.



Individuals, resident or non resident, that are customers of RCI and which use the services of a Custodian Agent may subscribe only through RCI.

Individuals, resident or non resident, that are customers of Intercapital Invest and do not use the services of a Custodian Agent may subscribe both through Intercapital Invest and as well as through the branch network of Raiffeisen Bank SA.

Individuals, resident or non resident, that are customers of Intercapital Invest and use the services of a Custodian Agent may subscribe only through Intercapital Invest..

Individuals, resident or non resident, that are not customers of RCI or Intercapital Invest and use the services of a Custodian Agent may subscribe only through RCI or Intercapital Invest.

Resident legal persons that are customers of RCI and do not use the services of Custodian Agent may subscribe both through RCI and through the branch network of Raiffeisen Bank.

Resident legal persons that are not customers of RCI and do not use the services of a Custodian Agent may subscribe both through the branch network of Raiffeisen Bank and through Intercapital Invest.

Non resident legal persons may subscribe both through RCI and Intercapital Invest.

***Subscription through the branch network of Raiffeisen Bank:***

Only individuals, resident or not resident in Romania, and resident legal entities that have not concluded a custody agreement with a local custodian may subscribe through the branch network of Raiffeisen Bank SA.

In order to be accepted, the Subscription Forms must be accompanied by the following documents, depending on each type of investor:

*1. Natural persons who subscribe for themselves:*

- Identity card (original and copy).
- Passport (original and copy) and/or staying permit (original and copy) – for Investors foreign citizens;
- Copy of the proof of making the payment by bank transfer.

*2. Natural persons who subscribe for another natural person:*

- Identity card (original and copy) of the representative and identity card (copy) of the represented person.

- Passport (original and copy) and/or staying permit (original and copy) of the representative and copy for the represented person – for foreign citizens;
  - Copy of the proof of making the payment by bank transfer.
  - Special or general power of attorney (copy and original).
3. *Natural persons who subscribe for under aged children:*
- Identity card (original and copy) of the person subscribing for the under aged child.
  - Passport (original and copy) and/or staying permit (original and copy) of the person subscribing for the under aged child – for foreign citizens.
  - Copy of the proof of making the payment by bank transfer.
  - Birth certificate or identity card of the under aged child (for under aged children between 14-18 years) (copy and original).
  - Legal document establishing the tutelage (copy and original).
4. *Incapable natural persons (without judgment):*
- Identity card (original and copy) of the person subscribing for the incapable person.
  - Passport (original and copy) and/or staying permit (original and copy) of the person subscribing for the incapable person – for foreign citizens.
  - Identity card of the incapable person (original and copy).
  - Copy of the proof of making the payment by bank transfer.
  - Legal document establishing the trusteeship (copy and original).
5. *Resident legal persons who subscribe for themselves:*
- Copy of the unique registration code.
  - Document proving the quality of the company's legal representative.
  - Document proving the actual situation and activity of the company (shareholders structure, share capital etc) issued by Trade of Registered Office with 10 Business Days before the subscription date

- Original power of attorney for the person signing the Subscription Form(unless the company's legal representative).
- Copy of the proof of making the payment by bank transfer
- Identity card or passport or staying permit (original and copy) of the person subscribing for the legal person.

6. *Natural persons authorized to carry out economic activities or family associations:*

- Authorization decision issued by the local City hall (copy).
- Copy of the unique registration code.
- Copy of the proof of making the payment by bank transfer.
- Identity card or passport or staying permit (original and copy) of the person signing the Subscription Form.
- Original power of attorney for the person signing the Subscription Form (in case another person subscribes).

7. *Professionals authorized to carry out independent activities:*

- Free practice decision or authorization (copy).
- Fiscal registration certificate (copy).
- Copy of the proof of making the payment by bank transfer.
- Identity card or passport or staying permit (original and copy) of the person signing the Subscription Form.
- Original power of attorney for the person signing the Subscription Form (in case another person subscribes).

Each payment order is equal to a subscription and cumulating several payment orders for one single valid subscription is not possible.

In case an Investor makes several subscriptions, the cumulated value of such subscriptions will be considered when classifying the respective orders in one of the two Tranches of the Offering.

In case the amount sent exceeds the value of the subscription, the Subscription Form is validated only for the number of subscribed Shares. In case the amount sent is lower than the subscribed amount, the Subscription Form is invalidated for the entire amount subscribed.

***Subscription through RCI***

*Subscription made by legal and natural persons customers of RCI, which do not use the services of a Custodian Agent*

The documents necessary for the subscriptions made by this category of subscribers be valid are:

- Signed subscription form (and stamped if the case may be) by the subscriber; it will be sent to RCI by fax,
- Payment order for the amount subscribed or for the difference between the subscription's value and the available amount of the respective subscriber in RCI customer account. The payment order will be sent to RCI by fax. Payment will be made to RCI customer account

*Subscription made by investors natural or legal persons that are RCI customers and use the services a Custodian Agent*

The documents necessary for the subscriptions made by this category of subscribers be valid are:

- Signed subscription form (and stamped if the case may be) by the subscriber; it will be sent to RCI by fax,
- Written statement of the custodian agent saying that it assumes to carry out the settlement for the subscribed shares.

*Subscription made by legal persons that are not RCI customers*

Resident legal persons that use the services of a Custodian Agent and non resident legal persons may subscribe through RCI. For these Investors the documents necessary for the subscriptions made to be valid are the following:

*1. Resident legal person that uses the services of a custodian agent:*

- Copy of the unique registration code.
- Copy of the Articles of Association and addendums (if any).
- Document proving the actual situation and activity of the company (shareholders structure, share capital etc) issued by Trade of Registered Office issued with no more than 10 Business Days before the subscription date
- Original power of attorney for the person signing the Subscription Form (unless the company's legal representative).
- Copy of the identity documents of the person making the subscription as representative of the resident legal person.
- form from the local custodian agent "Request for granting access to the participant to the account opened by the custodian agent for trading securities on Arena system – Annex II 16 to the Code of the Central depository.

- written statement of the custodian agent saying that it assumes to carry out the settlement for the subscribed shares.

2. *Non-resident legal persons:*

- Copy of the fiscal code and/or certificate attesting the registration of the legal person (translated and authenticated).
- Document proving the quality of the company's legal representative making the subscription.
- Original power of attorney for the person signing the Subscription Form (translated and authenticated) (unless the company's legal representative).
- Copy of the identity documents of the person making the subscription as representative of the non resident legal person.
- (in case there is no contract with a custodian) Copy of the proof of making the payment by bank transfer.
- (in case it uses the services of a Custodian Agent) form from the local custodian agent "Request for granting access to the participant to the account opened by the custodian agent for trading securities on Arena system – Annex II 16 to the Code of the Central depository.
- (in case it uses the services of a Custodian Agent) written statement of the custodian agent saying that it assumes to carry out the settlement for the subscribed shares.

***Subscription through Intercapital Invest SA***

*Subscription made by legal and natural persons customers of Intercapital Invest and do not use the services of a Custodian Agent*

The documents necessary for the subscriptions made by this category of subscribers to be valid are:

- Signed subscription form (and stamped if the case may be) by the subscriber. The form will be submitted in person, by the legal representative, at the agencies of Intercapital Invest SA,
- payment order for the subscribed amount or for difference between the subscription's value and the available amount of the respective subscriber in Intercapital Invest customer account. The payment order will be submitted in person, by the legal representative, at the agencies of Intercapital Invest SA. The payment will be made to Intercapital SA client account.

Upon the registration of the subscription, Intercapital Invest SA will transfer to the account RO41BRDE450SV05477804500 for the subscriptions through Intercapital Invest SA the amount of the Investor's subscription.

*Subscription made by investors natural or legal persons that are customers Intercapital Invest customers and use the services of a Custodian Agent*

The documents necessary for the subscriptions made by this category of subscribers be valid are:

- Signed subscription form (and stamped if the case may be) by the subscriber. The form will be submitted in person, by the legal representative, at the agencies of Intercapital Invest.
- Written statement of the custodian agent saying that it assumes to carry out the settlement for the subscribed shares.

*Subscription made by legal persons that are not Intercapital Invest customers*

For the Investors that are not customers of Intercapital Invest, the documents necessary for the subscriptions made to be valid are the following:

*1. Resident legal persons:*

- Copy of the unique registration code.
- Copy of the Articles of Association and addendums (if any).
- Document proving the actual situation and activity of the company (shareholders structure, share capital etc) issued by Trade of registered Office issued with no more than 10 Business Days before the subscription date
- Original power of attorney for the person signing the Subscription Form (translated and authenticated) (unless the company's legal representative).
- Copy of the identity documents of the person making the subscription as representative of the resident legal person.
- (in case it does not use the services of a custodian agent) Copy of the proof of making the payment by bank transfer.
- (in case it uses the services of a custodian agent) form from the local custodian agent "Request for granting access to the participant to the account opened by the custodian agent for trading securities on Arena system – Annex II 16 to the Code of the Central depository.
- (in case it uses the services of a custodian agent) written statement of the custodian agent saying that it assumes to carry out the settlement for the subscribed shares.

2. *Non-resident legal persons:*

- Copy of the fiscal code and/or certificate attesting the registration of the legal person (translated and authenticated).
- Document proving the quality of the company's legal representative making the subscription.
- Original power of attorney for the person signing the Subscription Form (translated and authenticated) (unless the company's legal representative).
- Copy of the identity documents of the person making the subscription as representative of the non resident legal person.
- (in case it does not use the services of a custodian agent) Copy of the proof of making the payment by bank transfer.
- (in case it uses the services of a custodian agent) form from the local custodian agent "Request for granting access to the participant to the account opened by the custodian agent for trading securities on Arena system – Annex II 16 to the Code of the Central depository.
- (in case it uses the services of a custodian agent) written statement of the custodian agent saying that it assumes to carry out the settlement for the subscribed shares.

***Other information regarding the subscription***

The subscriptions are validated only if the amounts representing the value of the subscription reached the Collection Accounts at the end of the banking day 7 December 2007 or if the subscriber presents, in the same timeframe, the written statement of the custodian agent saying that it assumes to carry out the settlement for the subscribed shares.

The subscriptions that are not validated will not be considered in the allocation process.

Upon the final calculation of the allocation indices, the Subscription Forms for which the money for the requested Offered Shares are not in the respective Collection Account or for which the subscription procedures were not complied with will not be considered. The investors whose Subscription Forms were not considered according to the paragraph above will be notified accordingly, and the amounts paid will be returned to them in the account mentioned in the subscription form.

The Collection Accounts for the subscription amounts carried out through the Distribution Group will be posted at all the subscription points.

***By signing the Subscription Form, the Investors confirm having read the present Prospectus and having made the subscription according to the terms included in the present Prospectus.***

***The subscriptions made within this Offering are irrevocable. In case the present Prospectus is subject to an amendment, subscriptions may be withdrawn within maximum three Business Day from the date on which the respective amendment to the present Prospectus was published. An investor may withdraw a subscription by filling in a Revocation Form at the unit where the subscription was made.***

#### ***Collection accounts***

The collection accounts for the subscriptions are the following:

For subscriptions through Raiffeisen Bank S.A: RO93RZBR0000060004592833, opened with Raiffeisen Bank S.A., Bucharest branch, beneficiary RCI..

For subscriptions through RCI, the amounts must be transferred into the following account:: RO13RZBR0000060002087405, opened with Raiffeisen Bank S.A., Bucharest branch, beneficiary RCI. These amounts will be transferred at the end of each day in a collection account in order to properly distinct the subscribed amounts.

For subscriptions through Intercapital SA: RO41BRDE450SV05477804500 opened with BRD – MCC., beneficiary Intercapital S.A.;

#### ***Settlement of the Allocated shares***

The settlement will be made through the settlement system of the Central Depository on the Settlement Date (three Business Days from the Transaction Date). In case of oversubscription, the Investors will be returned the difference between the amount paid for the subscribed shares and the value of the allocated shares, within maximum ten Business Days from the Settlement Date, by bank transfer to the current account mentioned by the Investor in the Subscription Form. The payments to the accounts indicated in the Subscription Form will be made in an alphabetical order of the subscribers.

In case the Offering is unsuccessfully closed, the Investors will be returned the amount paid for the subscribed shares within maximum ten Business Days from the Settlement Date, by bank transfer to the current account mentioned by the Investor in the Subscription Form. Payments to the subscribers' accounts will be made in the alphabetical order of the subscribers.

The amounts obtained by the Intermediary following the settlement of the share sale within the Offering, including the interests for these amounts accumulated in the Issuer's account, will be fully transferred to the issuer within six Business Days from the successful closing of the offering, to separate bank accounts to be communicated by the Issuer to the Manager.

The amounts gathered as interest as per the paragraph above will be distributed as follows:

- Subscribers-investors, in case the Offering is not successfully closed
- Issuer, in case the offering is closed successfully.

Within five Business Days from the date on which the NSC issues the answer to the notice regarding the results of the Offering, the Manager will publish an announcement in two national newspapers communicating the subscription factor within each tranche.

Reasons independent from the Issuer or the Intermediation Syndicate may lead to delays in processing the data and in elaborating and sending the notice regarding the Offering results to the NSC. As a consequence, neither the Distribution Group nor the Issuer assume any liability for



delays in the return of the amounts due to the investors in case the Offering is oversubscribed. In this case, the Issuer has no liability towards the investors.

## 2. Distribution network

### *Raiffeisen Bank distribution network*

County	Name	City	Adress	Phone no.
ALBA	Suc. Alba	Alba Iulia	Pta. I.C. Bratianu nr. 20	0258.811.271; 0372.225.800
ALBA	Ag. Sebes	Sebes	Str. Lucian Blaga nr.47	0258.733.778; 0372.707.102
ARAD	Suc. Arad	Arad	Str. Andrei Saguna nr.1-3	0257.280.583; 0257.307600; 0372.225.700
ARAD	Ag. Teatru	Arad	Str. Unirii nr.1, ap 30	0257.281.930 0257.283.439 0257.284.018; 0372.707.336
ARAD	Ag Podgoria	Arad	B-dul Revolutiei nr 8, ap 27, parter	0257.218.533; 0257.218.536; 0372.707.455
ARGES	Suc. Arges	Pitesti	Str. Craiovei nr. 42	0248.208.300; 0372.224.800
ARGES	Ag. Campulung	Campulung Muscel	Str. Negru Voda nr.117, bl 1	0248.511.160 0248.512.940; 0372.707.109
ARGES	Ag. Pitesti 2	Pitesti	Pta. Vasile Milea, bl A4, parter	0248.206.244; 0372.707.562
BACAU	Suc. Bacau	Bacau	Str. Dumbrava Rosie nr.2	0234.206.400; 0372.223.400; 0372.800.876
BACAU	Ag. Comanesti	Comanesti	Str. Republicii nr.22	0234.374.336 0234.374.335; 0372.707.137
BACAU	Ag. Onesti	Onesti	B-dul Oituz nr 19	0234.314.819; 0372.707.120
BACAU	Ag. Vasile Alecsandri	Bacau	Str. Ionita Sandu Sturza nr.2	0234.515.260; 0234.517.415; 0372.707.566
BIHOR	Suc. Bihor	Oradea	Str. Nufarului nr.30	0259.406.800; 0372.225.900
BIHOR	Ag. Vulturul Negru	Oradea	Piata Unirii nr.2-4	0259.428.044; 0259.428.037; 0372.707.348
BIHOR	Ag. Salonta	Salonta	Str. Libertatii nr 1-3, bl A	0259.373.216; 0372.707.071
BISTRITA NASAUD	Suc. Bistrita	Bistrita	Str. Liviu Rebreanu nr.51	0263.202.300; 0372.226.300
BISTRITA NASAUD	Ag. Nasaud	Nasaud	Str. Granicerilor nr. 20	0263.361.083; 0723.801.186
BOTOSANI	Suc. Botosani	Botosani	Calea Nationala nr. 68	0231.511.356; 0231.607.300; 0372.223.100
BOTOSANI	Ag. Nicolae Iorga	Botosani	B-dul George Enescu nr 2	0231.581.195;0231.581.196; 0372.707.431
BRAILA	Suc. Braila	Braila	Str. Calea Calarasilor nr.34	0239.606.120; 0372.223.900
BRAILA	Ag. 1 Decembrie	Braila	Str.1 Decembrie 1918 nr.2	0239.610.021; 0239.610.147; 0372.707.349
BRASOV	Suc. Brasov	Brasov	Str. Mihail Kogalniceanu nr.3	0268.308.300; 0372.226.800
BRASOV	Ag. Kronstadt	Brasov	Calea Bucuresti nr. 54	0268.330.243 0268.330.858

County	Name	City	Adress	Phone no.
				0268.330.919 0372.707.361
BRASOV	Ag. Piata Sfaturului	Brasov	Str. Pta Sfaturului nr.18	0268.415.670; 0372.707.324
BRASOV	Ag. Fagaras	Fagaras	Str. Republicii nr.27	0268.213.614; 0372.707.115
BUZAU	Suc. Buzau	Buzau	Str. Nicolae Balcescu nr.2	0238.720.293; 0372.223.800
BUZAU	Ag. Ramnicu Sarat	Ramnicu Sarat	Str. Victoriei nr 2	0238.561.841; 0372.707.105
BUZAU	Ag Unirii Sud	Buzau	Str. Unirii , bl O2	0238.726.623; 0372.707.369
CALARASI	Suc. Calarasi	Calarasi	Str. Progresului nr. 27 bl BBB	0242.312.620; 0372.224.200
CALARASI	Ag. Belsugului	Calarasi	Str. Belsugului bl D2,sc.1	0242.331.558; 0372.707.309
CARAS SEVERIN	Suc. Caras Severin	Resita	Pta. 1 Decembrie 1918 nr. 4	0255.212.017; 0372.225.500
CARAS SEVERIN	Ag. Caransebes	Caransebes	Str. Ardealului Bl 3, sc A	0255.513.749; 0372.707.116
CLUJ	Suc. Cluj	Cluj-Napoca	Str. Aviator Badescu nr.1	0264.207.300; 0372.226.400
CLUJ	Ag. Turda	Turda	Str. Libertatii nr.4, Bl A1	0264.317.009; 0372.707.107
CLUJ	Ag. Manastur	Cluj-Napoca	Str. Bucegi nr.11, ap 1A	0264.452.361; 0372.707.567
CLUJ	Ag. Marasti	Cluj-Napoca	Str. Aurel Vlaicu nr.2, ap nr.91C	0264.449.898; 0372.707.337
CONSTANTA	Suc. Constanta	Constanta	Str. Traian nr. 51	0241.606.300; 0372.224.100
CONSTANTA	Ag.Delfinariu	Constanta	B-dul Mamaia nr.264, bl.PS 5	0241.699.840; 0241.699.841; 0241.699.842; 0372.707.358
CONSTANTA	Ag. Mangalia	Mangalia	Sos. Constantei nr.30, bl H1 a, parter	0241.751.443 ;0372.707.234
CONSTANTA	Ag. Medgidia	Medgidia	Str. Republicii nr.12, Bl G4, mag 40 si mag 107	0241.822.429; 0372.707.122
CONSTANTA	Ag. Tomis	Constanta	Str.Cismelei nr.16, Bl B 5	0241.661.992;; 0372.707.203
CONSTANTA	Ag Trocadero	Constanta	B-dul Alexandru Lapusneanu nr.89,bl LE 33	0241.611.389; 0241.611.379; 0372.707.411
COVASNA	Suc. Covasna	Sfantu Gheorghe	Str. 1 Decembrie 1918 nr.33-37	0267.351.831; 0372. 226.700
COVASNA	Ag Tirgu Secuiesc	Targu Secuiesc	Str.Curtea 20, nr 1	0267.361.782; 0372.707.090
DAMBOVITA	Suc. Dambovita	Targoviste	Str. Calea Domneasca nr. 227	0245.206.300; 0372.224.500
DAMBOVITA	Ag. Chindia	Targoviste	Str. Constantin Brancoveanu , bl 11, sc D, parter	0245.214.051; 0245.214.052 0372.707.397
DOLJ	Suc. Dolj	Craiova	Str. Fratii Buzesti nr.17	0251.307.300; 0372.225.100
DOLJ	Ag. Oltenia ( Ag Craiova Noua)	Craiova	str. Calea Bucuresti, bl A14-A 15	0251.315.488; 0251..315.490; 0372.707.266
DOLJ	Ag. Nicolae Titulescu	Craiova	Str. Nicolae Titulescu nr	0251. 597.511; 0251.

County	Name	City	Adress	Phone no.
			8	594.412; 0251.590.342; 0372.707.376
GALATI	Suc. Galati	Galati	Str. Brailei nr. 31	0236.410.550; 0372.223.600
GALATI	Ag. Tecuci	Tecuci	Str. 1 Decembrie 1918, nr.42	0236.820.327; 0372.707.083
GALATI	Ag. Anghel Saligny	Galati	Str. Anghel Saligny bl G4 sc.3	0236.462.210; 0372.707.526
GALATI	Ag. Dunarea de Jos	Galati	Str. Brailei nr.232, bl E4, parter	0236.414.003; 0372.707.563
GIURGIU	Suc. Giurgiu	Giurgiu	Str. Portului bl. 32	0246.211.006; 0372.224.600
GIURGIU	Ag. Bolintin Vale	Bolintin Vale	Str. Republicii bl B 5	0246.270.993; 0372.707.098
GORJ	Suc. Gorj	Targu Jiu	Str. Tudor Vladimirescu nr.17	0253.206.301 0253.206.300; 0372.225.300
HARGHITA	Suc. Harghita	Miercurea Ciuc	Bdul Florilor nr.20, bl 27	0266.207.300 0266.207.302; 0372.226.600
HARGHITA	Ag. Gheorgheni	Gheorghieni	Pta Libertatii nr.7	0266.364.159; 0372.707.124
HARGHITA	Ag. Odorheiul Secuiesc	Odorheiul Secuiesc	Str. Rakoczi nr.13	0266.218.201; 0266 219.220; 0372.707.055
HUNEDOARA	Suc. Hunedoara	Deva	Str. Iuliu Maniu nr.18	0254.213.911; 0372.225.400
HUNEDOARA	Ag. Petrosani	Petrosani	B-dul 1 Decembrie 1918 nr. 92, bl B1	0254.548.748; 0372.707.351
HUNEDOARA	Ag. Corvinul	Hunedoara	B-dul Dacia, bl A2/2, parter	0254.713.734; 0254.713.735; 0372.707.410
IALOMITA	Suc. Ialomita	Slobozia	Bdul. Chimiei nr.13	0243.212.822; 0372.224.300
IALOMITA	Ag. Fetesti	Fetesti	Str. Ceahlaul nr.1-3	0243.362.660; 0723.800.522; 0372.707.034
IALOMITA	Ag. Urziceni	Urziceni	Str. Transilvaniei nr.3, bl 14	0243.255.514; 0372.707.092
IASI	Suc. Iasi	Iasi	Sos Nationala nr 23	0232.210.130; 0232.215.965; 0232.215.964; 0372.223.200
IASI	Ag. Stefan cel Mare	Iasi	Str. Stefan cel Mare si Sfant nr 2	0232.211.425; 0232.211.422; 0232.211.430; 0372.707.377
IASI	Ag. Independentei	Iasi	Str. Piata Unirii nr 2, et P+S	0232.218.850; 0232.218.851; 0372.707.420
MARAMURES	Suc. Maramures	Baia Mare	Str. Bdul Unirii nr.18	0262.207.400; 0372.226.200
MARAMURES	Ag. Sighetu Marmatiei	Sighetu Marmatiei	Str. Traian nr 7. magazin 28	0262.310.939; 0372.707.131
MARAMURES	Ag. George Cosbuc	Baia Mare	Str. George Cosbuc, nr. 14, parter	0262.221.999; 0372.707.389
MEHEDINTI	Suc. Mehedinti	Drobeta Turnu Severin	Bdul T.Vladimirescu nr 125-127	0252.314.152; 0372.225.200
MEHEDINTI	Ag. Drobeta	Drobeta Turnu Severin	B-dul T. Vladimirescunr 256	0731.490.687; 0252.311.243
MUN. BUCURESTI	Ag. Lujerului	Bucuresti	B-dul Iuliu Maniu nr. 16, bl. 14 sect 6	021.430.03.49; 0372.707.281
MUN. BUCURESTI	Ag. Sebastian	Bucuresti	Str.Calea 13 Septembrie nr.221-225, sect 5	021.410.65.29 021.410.54.00; 0372.707.245

County	Name	City	Adress	Phone no.
MUN. BUCURESTI	Ag. Toporasi	Bucuresti	Str.Sos Giurgiului nr.131, parter, sect 4	021.450.75.49; 021.450.75.36; 0372.707.229
MUN. BUCURESTI	Ag. Unirea	Bucuresti	Pta. Unirii nr.1,sect 3	021.313.71.15; 0723.801.027; 0372.707.303
MUN. BUCURESTI	Ag. Mosilor	Bucuresti	Calea Mosilor nr. 221 bl 31A, corp A, sect 2	021.210.84.09; 0372.707.315
MUN. BUCURESTI	Ag. Iancului	Bucuresti	Sos Iancului nr.2, bl 113C	021.250.00.12; 0372.707.333
MUN. BUCURESTI	Ag. Titan	Bucuresti	Bld. Nicolae Grigorescu nr 53, Ca 13, sect 3	021.348.51.96; 0372.707.493
MUN. BUCURESTI	Ag. Stirbei Voda	Bucuresti	Calea Stirbei Voda nr 152, bl 26 B	021.637.30.76; 0372.707.460
MUN. BUCURESTI	Ag. Timpuri Noi	Bucuresti	Str. Calea Vacaresti nr 220, bl 69, sp com ( mag 64)	021.330.32.30; 0372.707.480
MUN. BUCURESTI	Ag.Nerva Traian	Bucuresti	Str.Nerva Traian nr 15, bl M69, tronson 2 partial/2	021.323.33.50; 0372.707.441
MUN. BUCURESTI	Ag. Ion Mihalache	Bucuresti	Str. Ion Mihalache nr 109, bl 13 A, parter, sect 1	021.224.01.50; 021.224.12.55.;0372.707.379
MUN. BUCURESTI	Sucursala Municipiului Bucuresti	Bucuresti	Calea Victoriei nr.155, bl D1, tronson 6, parter, sect 1	021 209.36.00; 0372.707.046
MURES	Ag. Fortuna	Targu Mures	Str. Infratii nr 4	0265.258.024; 0265.258.088; 0372.707.414
MURES	Ag. Bartok Bela	Targu Mures	Str. Bartok Bela nr 1-3	0265.262.627; 0265.262.739; 0372.707.354
MURES	Ag. Sighisoara	Sighisoara	Str. Morii nr 14-18	0265.774.761; 0372.707.103
MURES	Suc. Mures	Targu Mures	Str. Gheorghe Doja nr 64-68	0265.260.993; 0372.226.500
NEAMT	Suc. Neamt	Piatra Neamt	Pta. Stefan cel Mare nr.3	0233.206.400; 0372.223.300
NEAMT	Ag. Roman	Roman	Str. Nicolae Titulescu nr.42	0233.741.479; 0372.707.068
OLT	Suc. Olt	Slatina	Str. Tudor Vladimirescu nr.1-3	0249.430.901; 0372.224.900
OLT	Ag. Slatina	Slatina	B-dul.Alex Ioan Cuza Bl D10,parter	0249.432.761; 0372.707.307
PRAHOVA	Suc. Prahova	Ploiesti	Str. Unirii nr. 2	0244.406.400; 0372.224.400
PRAHOVA	Ag. Campina	Campina	Str.1 Mai bl 12 G, parter	0244.376.596; 0372.707.561
PRAHOVA	Ag. Ploiesti 1	Ploiesti	B-dul.Republicii nr.118,bl.15 B2,parter	0244.597.800; 0244.518.600; 0372.707.334
PRAHOVA	Ag Sinaia	Sinaia	B-dul Carol nr. 32	0244.314.440; 0372.707.458
SALAJ	Ag. Meses	Zalau	Str. Tudor Vladimirescu nr. 54	0260.617.123
SALAJ	Suc. Salaj	Zalau	Str Unirii nr. 19	0260.606.300; 0372.226.000
SATU MARE	Ag. Soarelui	Satu Mare	Str. Lucian Blaga, bloc UU18, spatiu comercial,	0261.761.190 0261.761.191

County	Name	City	Adress	Phone no.
			parter	0372.707.405
SATU MARE	Suc. Satu Mare	Satu Mare	Piata 25 Octombrie, Bl 05	0261.714.785 0372.226.100
SIBIU	Suc. Sibiu	Sibiu	Piata Aurel Vlaicu, parter, etI si II	0269.211.309; 0372.226.900
SIBIU	Ag. Hermannstadt	Sibiu	Str. 9 Mai nr.2	0269/235.180; 0269 /216.317 0372.707.357;
SIBIU	Ag. Medias	Medias	Str. I.C. Bratianu nr.3	0269.834.301; 0372.707.111
SIBIU	Ag. Bruckenthal	Sibiu	Str. Nicolae Balcescu nr.29	0269.217.121; 0372.707.325
SIBIU	Ag Vasile Aaron	Sibiu	Str. Semaforului, bl. 14, Vasile Aaron	0269.246.090 0269.246.044 0372.707.383
SIBIU	Ag. Vitrometan	Medias	Str Calafat nr 2, bl 8, parter	0269.844.303; 0269.844.282; 0372.707.467
SUCEAVA	Suc. Suceava	Suceava	Bdul George Enescu nr 16	0230.207.300 0230.207.305; 0372.223.000
SUCEAVA	Ag Burdujeni	Suceava	Calea Unirii nr.39, bl 92, sc F, parter	0230.516.002 0372.707.435
SUCEAVA	Ag. Vatra Dornei	Vatra Dornei	Str. Lucafarului nr.15	0230.374.073; 0372.707.157
TELEORMAN	Suc. Teleorman	Alexandria	Str. Av. Al.Colfescu nr.63	0247.317.426; 0372.224.700
TIMIS	Suc. Timis	Timisoara	Str. Circumvalatiunii nr. 8-12	0256.243.447 0256.242.095; 0372.225.600
TIMIS	Ag. Aries	Timisoara	Str. Aries nr.20	0256.498.177; 0372.707.568
TIMIS	Ag. Bega	Timisoara	Str.Paris nr 2A, parter, zona B	0256.499.407; 0256.499.408; 0372.707.428
TULCEA	Suc. Tulcea	Tulcea	Str. Grivitei nr 19	0240.513.636; 0372.224.000;
TULCEA	Ag .Dunarea	Tulcea	Str. Isacpei nr.4 bl G 0	0240.519.256; 0372.707.560
VALCEA	Suc. Valcea	Ramnicu Valcea	Str. Stirbei Voda, bl T1	0250.702.300; 0372.225.000
VALCEA	Ag. Ostroveni	Ramnicu Valcea	B-dul Tineretului nr 8	0250.712.398; 0372.707.371
VASLUI	Suc. Vaslui	Vaslui	Str. Stefan cel Mare bl 94, sc C, D, nr 2-4	0235.307.600; 0372.223.500
VASLUI	Ag. Barlad	Barlad	Str. V Lupu si Str. 1 Decembrie, bl. M4, sc. B si D, parter	0235.413.231; 0372.707.011
VRANCEA	Suc. Vrancea	Focsani	Str. Maior Gheorghe Pastia nr.1	0237.206.300; 0237 206.301; 0372.223.700
VRANCEA	Ag. Republicii	Focsani	Str.Republicii nr 18, parter	0237.210.024 0237.210.038 0372.707.424

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