SNTGN TRANSGAZ SA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

TRANSGAZ SA

FINANCIAL STATEMENTS

31 DECEMBER 2008

CONTENTS

BALANCE SHEET

31 DECEMBER 2008
(Expressed in RON thousand, unless otherwise stated)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Intangible assets	8	10,078	8,731
Property, plant and equipment	6	2,707,989	2,650,007
Available for sale financial assets	9	475	27
		2,718,542	2,658,765
Current assets			
Inventories	10	40,362	31,373
Trade and other receivables	11	256,385	175,832
Cash and cash equivalents	12	301,587	366,619
		598,334	573,824
Total assets		3,316,876	3,232,589
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	13	559,157	559,157
Share premium	13	247,479	247,479
Public property reserve	14	1,265,797	1,265,797
Retained earnings	14	619,340	490,378
		2,691,773	2,562,811
Non-current liabilities			
Long term borrowings	15	99,074	122,046
Provision for employee benefits	21	22,156	19,878
Deferred income	16	127,920	92,048
Deferred tax liability	17	18,458	112,915
		267,608	346,887

The accompanying notes 1 to 31 are an integral part of these financial statements.

TRANSGAZ SA

BALANCE SHEET

31 DECEMBER 2008
(Expressed in RON thousand, unless otherwise stated)

	Note	31 December 2008	31 December 2007
Current liabilities			
Trade and other payables	18	270,823	233,457
Current income tax liabilities	17	14,589	14,113
Short term borrowings	19	72,083	74,043
Provision for liabilities and charges	20	-	1,278
		357,495	322,891
Total liabilities		625,103	669,778
Total equity and liabilities		3,316,876	3,232,589

These financial statements have been approved for issue by the Board of Directors on 14 May 2009.

Ioan Rusu
General Manager

ROMANIA TRANSGAZ S.A. MEDIAS 01/2000 Societatea Nationala de Transport Gaze Naturale

Radu Moldovan
Economic Department Manager

The accompanying notes 1 to 31 are an integral part of these financial statements.

TRANSGAZ SA

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in RON thousand, unless otherwise stated)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		1,116,646	1,035,905
Other income	22	16,303	7,500
		1,132,949	1,043,405
Depreciation and amortisation	6; 8	(174,474)	(167,065)
Wages and salaries		(221,827)	(185,805)
Gas, materials and consumables used		(218,457)	(154,669)
Cost of gas sold		-	(109,553)
Maintenance and transportation		(113,577)	(83,163)
Royalty expense		(111,665)	(60,864)
Other employee benefits	26	(50,444)	(43,072)
Third party services		(16,367)	(17,617)
Taxes and other state dues		(12,720)	(11,485)
Provision for employee benefits	21	(477)	(7,648)
Provision for liabilities and charges	20	1,278	-
Other operating expenses	23	(22,240)	(31,847)
Operating profit		191,979	170,617
Financial income	24	37,568	12,580
Financial expense	24	(35,171)	(15,766)
Profit before tax		194,376	167,431
Taxation	17	48,321	(27,461)
Net profit for the period		242,697	139,970

Earnings per share for profit or loss attributable to the equity holders of the Company during the year (expressed in RON per share) are:

Basic and diluted (see Note 28)	20.61	13.33
Dividend distribution (RON/share, Note 14)	9.66	11.69

The accompanying notes 1 to 31 form an integral part of these financial statements.

TRANSGAZ SA

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in RON thousand, unless otherwise stated)

	Note	Share capital	Share premium	Public property reserve	Retained earnings	Total equity
Balance at 1 January 2007 as reported		545,249	-	1,265,797	490,094	2,301,140
Adjustments to opening balance	2.24	-	-	-	(18,301)	(18,301)
Balance at 1 January 2007 (restated)		545,249	-	1,265,797	471,793	2,282,839
Share capital increase	13	13,908	247,479	-	-	261,387
Profit for the year (restated)	2.24	-	-	-	139,970	139,970
Dividends for 2006	14	-	-	-	(121,385)	(121,385)
Balance at 31 December 2007 as restated		559,157	247,479	1,265,797	490,378	2,562,811
Profit for the year		-	-	-	242,697	242,697
Dividends for 2007	14	-	-	-	(113,735)	(113,735)
Balance at 31 December 2008		559,157	247,479	1,265,797	619,340	2,691,773

The accompanying notes 1 to 31 form an integral part of these financial statements.

TRANSGAZ SA

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in RON thousand, unless otherwise stated)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Cash generated from operations	25	279,134	310,419
Interest paid		(12,991)	(12,331)
Interest received		31,069	4,881
Income taxes paid		(45,660)	(48,070)
Net cash inflow from operating activity		251,552	254,899
Cash flow from investment activities			
Payments to acquire property, plant and equipment		(205,338)	(140,131)
Proceeds from disposal of property plant and equipment		2,673	563
Sale of financial investments		(448)	-
Net cash used in investment activities		(203,113)	(139,568)
Cash flow from financing activities			
Share capital increase	13	-	261,387
Dividends paid	14	(110,057)	(121,385)
Proceeds from long term borrowings		47,650	52,950
Repayments of long term borrowings		(35,524)	(18,143)
Net cash (used in) / from financing activities		(97,931)	174,809
Net change in cash and cash equivalents		(49,492)	290,140
Cash and cash equivalents at the beginning of the year	12	351,079	60,939
Cash and cash equivalents at the end of the year	12	301,587	351,079

The accompanying notes 1 to 31 form an integral part of these financial statements.

1 GENERAL INFORMATION

The core activity of the National Company for Transportation of Natural Gas – SNTGN Transgaz SA ("the Company") is the transport and dispatch of natural gas. The Company also maintains and operates the national gas transportation system, imports and resells natural gas, is involved in international transit of natural gas and carries out research and design in the field of equipment for the natural gas industry. The Company is majority owned by the Romanian State through the Ministry of Economy and Commerce.

The Company was set-up following several reorganisations of the gas sector in Romania, as follows:

Initial reorganisation based on Government Decision No 334 published on 4 May 2000: the shares held by the former national gas monopoly SC Romgaz SA in its subsidiaries were transferred to the Ministry of Industry and Trade and, as a consequence, the following independent companies were established: Transgaz SA, in charge with the transportation of natural gas from the producers to the distribution companies; Exprogaz SA, a natural gas exploration, production and storage company; Depogaz SA, a natural gas exploration, production and storage company; Distrigaz Nord SA, a gas distribution company covering the northern half of the country and Distrigaz Sud SA, a gas distribution company covering the southern half of the country.

The Romanian Gas Industry was further re-organized through Government Decision No 575 published on 27 June 2001. According to this decision, SNGN Romgaz SA was established through the merger of Exprogaz SA and Depogaz SA.

The gas sector is regulated by the National Agency for Regulation of the Energy Sector ("Agenția Națională pentru Reglementare în Energie" – "ANRE") as established through Government Ordinances 60/2000 and 41/2000. The main responsibilities of ANRE are the following:
- issuance or withdrawal of licenses for companies operating in the natural gas sector;
- publication of framework contracts for sale, transport, acquisition and distribution of natural gas;
- setting criteria, requirements and procedures related to the selection of eligible consumers;
- setting pricing criteria and computation methods for the natural gas sector.

The Company has its registered office in I.C. Motas Square Nr 1, Medias, Romania.

These financial statements were authorised for issue by the Board of Directors on 14 May 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of SNTGN Transgaz SA have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The financial statements have been prepared under the historical cost convention except for available for sale financial assets which are presented at fair value.

The preparation of financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) *Interpretations effective in 2008*

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Company's financial statements.

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

IFRS 8, 'Operating segments', (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company's management has decided not to early adopt this standard and is currently analyzing the impact of the standard on the Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The standard applies prospectively.

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply IAS 1 (Revised) from 1 January 2009. It is not expected to have a material impact on the Company's financial statements.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the Company's financial statements.

IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Company will apply the IAS 32 and IAS 1(Amendment) from 1 January 2009. It is not expected to have any impact on the Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the Company's financial statements.

IAS 27 (revised January 2008; effective for annual periods beginning on or after 1 July 2009), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 is not expected to have a material impact on the Company's financial statements.

IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010. The standard is not expected to have a material impact on the Company's financial statements.

IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Company will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Company will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Company will apply the IAS 38 (Amendment) from 1 January 2009.

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. – IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent. The Company will apply the IAS 19 (Amendment) from 1 January 2009. The Company does not expect the standard to have a material impact on its' financial statements.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with group treasury as fair value or cash flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker.
- When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Company will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Company's financial statements.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Company will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Company's financial statements.

IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a belowmarket rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have a material impact on the Company's operations as there are no loans received or other grants from the government.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property', and IAS 41, 'Agriculture', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments will not have a material impact on the Company's operations as described above.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Company's financial statements and have therefore not been analysed in detail.

For the following IFRIC's, due to the European Union's endorsement procedure, some time elapses from the point when the IASB issues or amends a standard or interpretation, and its subsequent endorsement for use in the EU. Therefore, the effective date may differ as mentioned below.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is not expected to have any impact on the Company's financial statements. IFRIC 14, "IAS 19 is effective for annual periods beginning on or after 1 January 2008 per the interpretations issued by the IASB. However the EU's endorsement amended the effective date for entities applying IFRS as adopted in the EU to annual periods beginning after 31 December 2008 (though early adoption is permitted).

IFRIC 12, 'Service concession arrangements' - applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. Management estimates that the adoption of IFRIC 12 would impact:

- measurement of intangible assets (measurement of the initial value and subsequent amortisation);
- revenue and cost recognised in each period presented in the financial statements;
- recognition of the provision resulting from the contractual obligation to restore or maintain infrastructure.

IFRIC 12 is effective for annual periods beginning on or after 1 January 2008 per the interpretations issued by the IASB. However the EU's endorsement amended the effective date for entities applying IFRS as adopted in the EU to annual periods beginning after 1 January 2010 (though early adoption is permitted). Management has not early adopted IFIC 12 and is currently assessing the impact of the adoption of IFRIC 12 on the Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) *Interpretations and amendments to existing standards that are not yet effective and not relevant for the Company's operations*

The following interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Company's operations:

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Company. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Company will apply IFRIC 16 from 1 January 2009. IFRIC 16 is not relevant for the Company's operations.

IFRIC 13, 'Customer loyalty programmes' - clarify that where goods or services are sold together with a customer loyalty incentive (for example loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is effective for annual periods beginning on or after 1 July 2008 per the interpretations issued by the IASB. However the EU's endorsement amended the effective date for entities applying IFRS as adopted in the EU to annual periods beginning after 31 December 2008 (though early adoption is permitted). IFRIC 13 is not relevant to the Company's operations as it does not operate any loyalty programmes.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Company will apply the IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Company's operations because none of the Company's ordinary activities comprise renting and subsequently selling assets.

IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current assets held-for-sale and discontinued operations', IAS 39 would continue to be applied. The amendment will have no material impact on the Company's operations.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement', only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment is not relevant for the Company's operations.

IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Company's operations, as none of the Company's subsidiaries or associates operate in hyperinflationary economies.

IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation', and IFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the Company's operations as there are no interests held in joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the Company's operations, as all intangible assets are amortised using the straight-line method.

IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the Company's operations, as there are no investment properties are held by the Company.

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Company's operations as no agricultural activities are undertaken.

IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11, 'Construction contracts', should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Company's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geografical segment is engaged in providing products or services, which in particular economical environments, are subject to risks and returns that are different from those of segments operating in other economical environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency transactions

a) *Functional currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in RON, which is the functional and presentation currency of the Company.

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

At 31 December 2008, the exchange rate communicated by the National Bank of Romania, was US Dollar ("USD") 1 = RON 2.8342 (31 December 2007: USD 1 = RON 2.4564) and Euro ("EUR") 1 = RON 3.9852 (31 December 2007: EUR 1 = RON 3.6102).

2.4 Accounting for the effect 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 Company 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, and the respective conversion factors are:

(Expressed in RON thousand, unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Year	Movement in CPI	Indices	Conversion Factor
1999	54.8%	1.548	2.46
2000	40.7%	2.178	1.75
2001	30.3%	2.838	1.35
2002	17.8%	3.343	1.14
2003	14.1%	3.815	1

2.5 Intangible assets

Computer software

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.

2.6 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, including public property of the State (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. The carrying amount of the replaced asset is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land is not depreciated. 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:

	Years
Buildings	50
Assets in the gas transportation system	20 - 50
Other fixed assets	4 - 20

All borrowing costs are expensed as incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within the income statement of the period in which the sale occurred.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Public property assets

In accordance with the Public Property Law 213/1998, gas transportation pipelines represent state property. Government Decision 491/1998, as confirmed by Government Decision 334/2000, specifies that fixed assets with a historical statutory gross book value of RON 482,787 and a restated net book value of RON 428,509 (at 31 December 2007 a statutory historical gross book value RON 483,590 and a restated net book value of RON 481,661), representing gas pipelines are to be administered by the Company. Therefore, the Company 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 (see Note 7). The Company 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 Company's financial performance is directly linked to the condition of the network system. Consequently, the Company has recognized these assets in its balance sheet, together with a corresponding reserve in equity. Accounting policies applied for these assets are the same as for the Company's other property, plant and equipment (Notes 2.6 and 2.7).

As per the Public Concession Law 219/1998, a royalty must be paid in respect of public property assets which are administered by companies other than state bodies. In accordance with the Concession Agreement signed by the Company with the National Agency for Mineral Resources ("ANRM") in May 2002 (the "Concession Agreement"), further described in Note 7, and approved by the Government Decision 668 /20 June 2002, the royalty to be paid in respect of public property assets had been set at the level of 5% of the revenues from gas transportation and transit. Starting October 2007, the royalty was increased to 10% of the revenues. The duration of the concession agreement is of 30 years to 2032.

2.9 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. No such assets are held.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables' and cash and cash equivalents in the balance sheet (Note 2.12 and 2.14).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Company's right to receive payments is established.

(d) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.12.

2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company does not have any derivative financial instruments and hedging activities.

2.11 Inventories

Inventories are stated at the lower of restated cost and estimated net realizable value. Cost is determined using the first in first out cost method. 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 in full.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 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. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the income statement.

2.13 Value added tax

Value added tax (VAT) is payable to the Tax Authorities based on the monthly VAT return by the 25th of the following month irrespective of collection of receivables from customers. The Fiscal Authorities permit the settlement of VAT on a net basis. When input VAT is higher than output VAT, the difference is refundable at the Company's request. The VAT refund may be made after a tax inspection is performed or without a tax inspection, if certain conditions are met. VAT related to sales and purchases which has not been settled at the balance sheet date is recognised in the balance sheet on a net basis and disclosed as a current asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

The related VAT needs to be paid to the State and can only be recovered after the debtor is declared bankrupt.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Shareholders' equity

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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 statutory 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/December 2004, approved by the Law 50/March 2005, by exception to Government Ordinance 64/2001 the Company 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.

2.16 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.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.19 Trade and other payable

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Deferred income

Deferred income is recorded for connection fees charged to customers for connecting them to the gas transportation network. The deferred income is released in the income statement over the useful life of the related assets which are installed on connection (connection pipes, gas flow regulator, counter).

2.21 Employee benefits

The Company, in the normal course of business, makes payments to the Romanian State on behalf of its employees for social security, health and pension benefits. All employees of the Company 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 Company 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 Company has recorded a provision for such payments (see Note 21).

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

The Company is also committed through the collective labour agreement to provide current employees free of charge certain quantities of gas or the cash equivalent (see Note 26); these amounts are charged to "Other employee benefits" in the period in which they are incurred. The value of this gas is calculated at the regulated selling price applied to the agreed quantity as per collective labour contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Profit-sharing and bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

2.22 Provisions

Provisions for liabilities and charges are recognised when the Company has a present legal or constructive 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. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Company has recognised provisions in respect of legal claims (Note 20).

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) *Revenue from services*

Revenue from gas transportation and transit is recognized when the gas has been delivered and measured in accordance with contract. Quantities of gas transported are measured and billed to clients on a monthly basis.

b) *Sale of goods*

Revenue from the sale of gas is recognized in the month the gas has been delivered.

c) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

d) *Dividend income*

Dividends are recognised when the right to receive payment is established.

e) *Mutual cancellation and barter transactions*

A portion of sales and purchases are settled by mutual cancellations, barter or non-cash settlements. 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.

2.24 Correction of prior period errors

Tangible assets

During a review of the fixed assets used by the Company the following errors were identified and corrected:

(Expressed in RON thousand, unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Prior to 2005, a number of public property assets used by the Company, with a carrying value of RON 18,301, were de-commissioned and impaired pending their retirement. The assets were subsequently disposed of and written-off, however the impairment provision was reversed twice. The provision reversal was cancelled through the opening retained earnings of the earliest period presented (fiscal 2007), thus decreasing the value of fixed assets and retained earnings with this amount.
- In 2007, some items of property, plant and equipment, mainly from the public property assets, with a carrying value of RON 33,184 were booked as fully disposed. However, as per government decision, those items should have been partially disposed, in amount of RON 11,714. The error was reversed by decreasing the expense with the disposal of fixed assets and increasing the value of fixed assets by RON 21,470.
- In 2007, the expense with the depreciation of property, plant and equipment was overstated by RON 15,371. The error was corrected decreasing the depreciation expense and increasing the net book value of fixed assets with the related amount.

Intangible assets

In 2007, the Company incurred costs relating to the listing on Bucharest Stock Exchange and related issuance of new shares in amount of RON 5,302 (RON 4,454 net of related tax benefit). These amounts were wrongly capitalised as intangible assets in 2007. The error was corrected by deducting the respective transaction costs from equity (share premium). Consequently, the intangible assets decreased and the share premium decreased with this amount.

Summarized effect of prior period adjustments on 2007 numbers:

	Share premium	Retained earnings
Balance at 1 January 2007 as previously reported	-	490,094
Adjustments to opening retained earnings (correction of impairment provision reversal)	-	(18,301)
Balance at 1 January 2007 as restated	-	471,793
Share capital increase as previously stated	251,933	-
Adjustments to deduct issuance costs, net of tax effect	(4,454)	-
Profit for the year as previously stated	-	109,023
Adjustments to profit in respect of public property assets previously written off	-	21,470
Adjustment to profit in respect of depreciation charge	-	15,372
Deferred tax effect of corrections	-	(5,895)
Balance at 31 December 2007 as restated (before dividends)	247,479	611,763

(Expressed in RON thousand, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company do not use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from recognised assets (Note 11) and liabilities, mainly long-term borrowings (Note 15).

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

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the Company's functional currency, with all other variables held constant:

	2008	2007
Impact on profit and loss and on equity of:		
US Dollar strengthening by 10%	(5,527)	(8,298)
US Dollar weakening by 10%	5,527	8,298
Euro strengthening by 10%	(1,426)	(2,438)
Euro weakening by 10%	1,426	2,438

(ii) Price risk

The Company is exposed to commodity price risk related to gas acquired for its' own consumption. If price of gas would have been 5% higher/lower, net profit for the year would have been lower/higher by RON 8,129 (2007: 5,803 RON).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Cash flow and fair value interest rate risk

The Company is exposed to interest rate risk through its interest-bearing short and long-term borrowings, the majority of which are at variable rates. The Company is also exposed to interest rate risk on its bank deposits and investments in Government Bonds. The Company has not entered into any arrangements to mitigate these risk.

At 31 December 2008, if interest rates as at that date had been 50 basis points lower/higher with all other variables held constant, profit for the year would have been RON 47 (2007: RON 51) higher/lower, mainly as a result of lower interest expense on variable interest liabilities. The Company's exposure to interest rate risk at the balance sheet date is not representative of the typical exposure during the year. For the average exposure during 2008, if interest rates had been 50 basis points lower/higher with all other variables held constant, profit for the year would have been RON 979 (2007: RON 702) higher/lower, mainly as a result of lower interest expense on variable interest liabilities.

(b) Credit risk

Credit risk arises mainly from cash and cash equivalents and from trade receivables. The Company 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 accounts receivable, net of bad debt provision, represents the maximum amount exposed to credit risk. The Company's credit risk is concentrated in its top 5 clients, which together amount to 79% of trade receivable balance at 31 December 2008 (2007: 75%). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

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

(c) Liquidity risk

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

(Expressed in RON thousand, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The maturity analysis of financial liabilities at 31 December 2008 is as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans and borrowings	188,538	81,351	107,187	-
Trade & other payables	270,823	270,823	-	-
	459,361	352,174	107,187	-

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans and borrowings	222,468	81,438	141,030	-
Trade & other payables	233,457	233,457	-	-
	455,925	314,895	141,030	-

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

(Expressed in RON thousand, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

During 2008, the Company's strategy, which was unchanged from 2007, was to maintain the gearing ratio as low as possible. The net gearing ratio was nil at 31 December 2008 and 2007:

	2008	2007
Total borrowings (Notes 15 and 19)	171,157	196,089
Less: cash and cash equivalents (Note 12)	(301,587)	(366,619)
Net debt	(130,430)	(170,530)
Total equity	2,691,773	2,562,811
Gearing ratio	nil	nil

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. 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 Company for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Tax legislation

Romanian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30 (iv).

4.2 Useful lives of property, plant and equipment

For the periodic review of the useful live of property, plant and equipment, the Company's management considers:

- technical obsolescence of existing equipment;
- the significant investments programme reflected in the future annual capital expenditure budgets subjected to the shareholders approval.

In assessing the useful life for property, plant and equipment, the Company's management assumed that there will not be major technological changes in its industry requiring a substantial replacement of the existing assets used for the gas transportation activities and that its annual investment programme for future periods will be approved by the shareholders.

The management of the Company estimates that the useful lives and method of depreciation used (Note 2.6) reflect accurately the pattern in which the future economic benefits are expected to be consumed by the Company.

4.3 Assumptions to determine amount of provision for retirement benefits

This provision has been computed based on the estimations of the average salary, average staff turnover, and average number of salaries to be paid at the time of the retirement and the time frame when the benefits are to be paid. The provision has been discounted to its present value by applying a discount factor based on the risk free interest rate (i.e. interest rate on government bonds).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

4.4 Accounting treatment for concession agreement

As further described in Note 7, in May 2002, Transgaz SA has concluded a Concession Agreement with ANRM giving the Company the right to operate the major pipelines of the national gas transportation system for a period of 30 years. Before the conclusion of this agreement, the pipelines were owned by Transgaz SA. According to the clauses of the Concession Agreement, the Company receives the majority of the benefits associated with the assets and is exposed to the majority of risks. Consequently, the Company has recognized these assets in its balance sheet, together with a corresponding reserve in equity.

4.5 Accounting treatment for royalties paid for the use of the national gas transportation system

As described in Note 7, the Company pays royalties, computed as a percentage of revenues from operating the national gas transportation system's pipelines. These costs have been recognised as an expense rather than a deduction from revenues because they are not of the nature of a tax collected from customers and passed on to the State due to the nature of the business and regulatory environment:

- the Company's revenues are based on tariffs approved by a different regulator than the regulator setting the royalty level;
- the royalty expense is only one of the elements taken into account in computing the transportation tariff;
- recovery of any increases in royalty in full through future tariff increases is not guaranteed; and
- tariffs may increase with up to a year's delay after changes in royalty.

4.6 Impairment of tangible and intangible assets

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and slower economy, which in turn affects the level of demand for gas across businesses and industries. These factors indicate the need to review non-current assets for impairment losses. The management has performed an impairment test for fixed assets in the "domestic gas transportation" segment, and compared the carrying value of long term assets to the recoverable amount, the latter being calculated based on the present value of the expected cash flows generated by the assets. The cash flow projections were based on a growth rate of 6% in 2009 to 2013, followed by an average annual growth rate of 5% (nominal) for operating revenues and operating costs for the remaining useful life of the assets. The earnings before interest and taxes were assumed constant as a ratio to revenues. The average cost of capital used in calculation is 10.3%. The results of the test prove that the value in use of non-current assets is in excess of carrying values; hence no impairment loss was needed.

(Expressed in RON thousand, unless otherwise stated)

5 SEGMENT INFORMATION

Primary reporting format – business segments

In 2008, the Company had two main business segments: domestic gas transportation and international gas transit. In 2007, the Company was also supplying gas (which had been obtained as payment for certain transit services), but this activity was discontinued in 2008.

For the year ended 31 December 2008

	Domestic gas transportation	International gas transit	Unallocated	Total
External sales	916,527	200,119	-	1,116,646
Other income	-	-	16,303	16,303
Total revenue	916,527	200,119	16,303	1,132,949
Depreciation	140,286	32,736	1,452	174,474
Operating expenses other than depreciation	721,056	38,776	6,664	766,496
Operating income	55,185	128,607	8,187	191,979
Net financial gain	-	-	-	2,397
Profit before tax	-	-	-	194,376
Taxation	-	-	-	48,321
Net profit	-	-	-	242,697
Segment assets	2,378,421	578,550	359,905	3,316,876
Segment liabilities	361,168	200,194	63,741	625,103
Capital expenditure	112,750	3,185	4,022	119,957
Non-cash expenses other than depreciation	12,880	76	110	13,066

5 SEGMENT INFORMATION (CONTINUED)

The assets presented for each segment comprise mainly tangible and intangible assets, inventory and receivable and exclude mainly the cash and bank accounts.

The liabilities presented for each segment consist of the operating liabilities and loans contracted by the Company for the acquisition of the assets for the respective segments.

The non-cash expenses other than depreciation consist of the receivables impairment charge, the inventory impairment.

The Company's secondary segment is structured based on the customers' location, domestic or foreign.

The transit activity is provided only for the foreign customers, while the transportation activity is provided for the domestic customers.

	Domestic customers	Foreign customers	Total
Turnover	916,527	200,119	1,116,646
Other income	-	-	16,303

All the Company's assets are located in Romania. All the Company's activities are carried out in Romania.

The Company has receivables from foreign parties in amount of RON 19,505.

(Expressed in RON thousand, unless otherwise stated)

5 SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2007

	Domestic gas transportation	International gas transit	Gas supply	Unallocated	Total
External sales	735,134	190,267	110,296	208	1,035,905
Other income	-	-	-	7,500	7,500
Total revenue	735,134	190,267	110,296	7,708	1,043,405
Depreciation	122,781	37,401	-	6,883	167,065
Operating expenses other than depreciation	561,873	30,541	109,553	3,756	705,723
Operating income	50,480	122,325	743	(2,931)	170,617
Net financial loss	-	-	-	-	(3,186)
Profit before tax	-	-	-	-	167,431
Taxation	-	-	-	-	(27,461)
Net profit	-	-	-	-	139,970
Segment assets	1,784,140	661,587	-	786,862	3,232,589
Segment liabilities	315,040	196,087	-	158,651	669,778
Capital expenditure	219,145	1,499	-	308	220,952
Non-cash expenses other than depreciation	11,563	89	-	8,455	20,107

5 SEGMENT INFORMATION (CONTINUED)

The assets presented for each segment comprise mainly tangible and intangible assets, inventory and receivable and exclude mainly the cash and bank accounts.

The liabilities presented for each segment consist of the operating liabilities and loans contracted by the Company for the acquisition of the assets for the respective segments.

The non-cash expenses other than depreciation consist of the receivables impairment charge, the inventory impairment charge and the expense with the gas received from barter transactions and sold to customers.

The Company's secondary segment is structured based on the customers' location, domestic or foreign.

The transit activity is provided only for the foreign customers, while the transportation activity is provided for the domestic customers.

	Domestic customers	Foreign customers	Total
Turnover	845,638	190,267	1,035,905
Other income	-	-	7,500

All the Company's assets are located in Romania. All the Company's activities are carried out in Romania.

The Company has receivables from foreign parties in amount of RON 16,981.

(Expressed in RON thousand, unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transportation system assets	Other fixed assets	Assets in course of construction	Total
Year ended 31 December 2007					
Opening net book value as reported previously reported	286,913	2,161,919	69,556	119,588	2,637,976
Adjustment to opening balance (Note 2.24)	-	(18,301)	-	-	(18,301)
	286,913	2,143,618	69,556	119,588	2,619,675
Additions	-	-	-	203,438	203,438
Transfers	36	192,140	28,776	(220,952)	-
Disposals (net book value)	(3,861)	(28,746)	(577)	-	(33,184)
Depreciation charge	(16,985)	(140,601)	(19,177)	-	(176,763)
Adjustment to disposals (Note 2.24)	2,306	19,172	(8)	-	21,470
Adjustment to depreciation (Note 2.24)	2,927	8,109	4,335	-	15,371
	271,336	2,193,692	82,905	102,074	2,650,007
Cost or valuation as restated	461,051	4,861,986	329,383	102,074	5,754,494
Accumulated depreciation as restated	(189,715)	(2,668,294)	(246,478)	-	(3,104,487)
Net book value restated	271,336	2,193,692	82,905	102,074	2,650,007
Year ended 31 December 2008					
Opening net book value	271,336	2,193,692	82,905	102,074	2,650,007
Additions	690	14,386	48	213,998	229,122
Transfers	31,310	44,703	20,820	(96,833)	-
Disposals (Net book value)	(2,629)	(316)	(118)	-	(3,063)
Depreciation charge	(14,967)	(135,994)	(17,116)	-	(168,077)
Closing net book value	285,740	2,116,471	86,539	219,239	2,707,989
Cost	489,641	4,909,908	343,883	219,239	5,962,671
Accumulated depreciation	203,901	2,793,437	257,344	-	3,254,682
Net book value	285,740	2,116,471	86,539	219,239	2,707,989

(Expressed in RON thousand, unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The gross book value of fully depreciated assets still in use is RON 1,599,247 (2007: RON 1,598,237).

Public property assets

Included in the transportation system assets are property, plant and equipment which are part of the public property of the State and are subject to the concession agreement as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Opening net book value	481,660	541,449
Charge	(53,037)	(54,996)
Net book value of disposals	(114)	(23,333)
Closing net book value	428,509	463,120
Cost	2,640,698	2,447,273
Accumulated depreciation	2,212,189	1,984,153
Closing net book value	428,509	463,120
Adjustment on cost (note 2.24)	-	205,743
Adjustment on accumulated depreciation (note 2.24)	-	187,202
Cost as restated	2,640,698	2,653,016
Accumulated depreciation as restated	2,212,189	2,171,355
Closing net book value as restated	428,509	481,661

As detailed in Note 7, these assets are administrated by Transgaz SA. Public property assets can not be sold or disposed of by the Company.

In accordance with public property law (Law 213/1998) any new asset constructed by the Company which is part of the national gas transportation transfers to public property once it is fully depreciated. The costs of dismantling and removing public property assets and restoring the site on which they are located are not an obligation of the Company.

7 SERVICE CONCESSION AGREEMENT

In May 2002, Transgaz SA has concluded a concession agreement with ANRM giving the Company the right to operate the major pipelines (trunk pipelines) of the national gas transportation system for a period of 30 years. Prior to the conclusion of this agreement, the pipelines were owned by Transgaz SA. All the modernisation or developments added by the Company to the system are considered parts of the system and become property of the ANRM at the end of their useful life. The Company can not sell any asset which is part of the pipeline system; disposals can only be made based on approval by the State.

At the end of the contract, the public property assets existing at the time when the agreement was signed and all the investments made to the system will be returned to the State free of charge, except for assets constructed by the Company and not fully amortised for which it will be compensated at the level of the net book value of the respective assets at the end of the concession period. The Company owns and will develop other assets that are not a direct part of the national gas pipeline transportation system, but represent complementary assets for the gas transportation operations. The ANRM has the option to buy these assets at the end of the concession agreement at fair value.

The main terms of the Concession Agreement are as follows:

- the Company has the right to directly operate the assets being the object of the Concession Agreement and to charge and collect the transit and transportation tariffs from its customers in exchange for the services provided; Transgaz SA is the only entity licensed to operate the major pipelines of the national gas transportation system, with no sub-concessions being allowed;
- any change in tariffs should be proposed by the Company to the ANRM and further approved by ANRE;
- the Company is exempted from the payment of import duties for assets acquired in order operate, improve or develop the system;
- on an annual basis, the Company should publish the available capacity of the system for the next year, by October 30;
- on an annual basis, customers' orders must be replied to by November 30, and ANRM should be informed of all the refusals decided by the Company's management;
- the Company has to maintain a specific service level (guaranteed through a minimum compulsory investment program for 2002 - 2006);
- royalties are paid as a percentage (up to 30 September 2007: 5%, starting October 2007: 10%) of gross revenue from operating the pipeline network (transportation and transit);
- all operating expenses for running the system are covered by the Company;
- the Company can cancel the contract by notifying the ANRM 12 month in advance;
- the ANRM can cancel the contract with 6 month advance notification; it has also the option to cancel the contract with a 30 days notification period, for "national interest" reasons; in such case, Transgaz SA will be paid compensation amounting to the average net profit for the past 5 years multiplied by remaining life of the contract.

(Expressed in RON thousand, unless otherwise stated)

7 SERVICE CONCESSION AGREEMENT (CONTINUED)

The Concession Agreement does not include an automatic extension clause.

No changes in the terms of the Concession Agreement have occurred since June 2003.

8 INTANGIBLE ASSETS

	Computer software	Intangible in progress	Total
Opening net book value	11,104	27	11,131
Additions	3,300	10,626	13,926
Disposals	-	(5,351)	(5,351)
Amortisation	(5,673)	-	(5,673)
Closing net book value	8,731	5,302	14,033
At 31 December 2007			
Cost	38,204	5,302	43,506
Accumulated amortisation	29,473	-	29,473
Net book value as previously reported	8,731	5,302	14,033
Adjustment to additions (Note 2.24)	-	(5,302)	(5,302)
Net book value as restated	8,731	-	8,731
Opening net book value	8,731	-	8,731
Additions	7,974	8,182	16,156
Disposals and transfers	(489)	(7,923)	(8,412)
Amortisation	(6,397)	-	(6,397)
Closing net book value	9,819	259	10,078
At 31 December 2008			
Cost	45,687	259	45,946
Accumulated amortisation	35,868	-	35,868
Net book value	9,819	259	10,078

(Expressed in RON thousand, unless otherwise stated)

9 AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets consist of unlisted equities in the following companies:

Company	Activity	% Ownership	31 December 2008	31 December 2007
Resial SA	manufacturing	68.16	18,116	18,116
Mebis SA	manufacturing	17.47	6,462	6,462
Wirom Gas SA	gas distribution and supply	0.02	3	3
Nabucco Gas Pipeline International Gmbh	gas transportation	16.67	472	24
Less provision for impairment of investments in Resial and Mebis			(24,578)	(24,578)
			475	27

Investment in Resial SA

The shares in Resial SA were received in December 2003 through enforced collection of receivables from a customer. Resial has entered liquidation procedures in 2006; the process is carried out by an insolvency practitioner appointed by the court and is outside the Company's control, therefore the investment is not consolidated and carried at cost less impairment provision at 100% of cost. Management does not expect that Transgaz will recover any amounts from this investment and the Company does not guarantee any residual liabilities of Resial SA.

Investment in Mebis SA

The shares in Mebis SA were received in February 2004 through enforced collection of receivables from a customer. The company is in liquidation, therefore the whole investment in the company was provided for. The Company has no obligations in respect of Mebis SA.

Investment in Nabucco Gas Pipeline International Gmbh

Nabucco Gas Pipeline International Gmbh ("NIC") 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 participated with four other shareholders in the share capital of this company, each holding a participation of 20% of the share capital. In February 2008, the share capital of NIC was increased through the contribution of new shareholder, RWE Gas Midstream Germany. Therefore, each of the five shareholders owns a participation of 16,67% of the share capital.

(Expressed in RON thousand, unless otherwise stated)

10 INVENTORIES

	31 December 2008	31 December 2007
Spare parts and materials	45,486	34,470
Provisions for slow moving inventories	(5,124)	(3,097)
	40,362	31,373

11 TRADE AND OTHER RECEIVABLES

	31 December 2008	31 December 2007
Trade receivables	312,957	268,087
Advances from suppliers	31	15
VAT recoverable	5,328	510
Loan to Resial SA	1,782	1,783
Other receivables	30,828	5,703
Provision for impairment of receivables	(92,759)	(98,483)
Provision for impairment of other loan to Resial SA	(1,782)	(1,783)
	256,385	175,832

As at 31 December 2008, RON 19,505 (31 December 2007: RON 16,981) of net trade and other receivables are denominated in foreign currency, 78% in USD (2007: 78%) and 22% in EUR (2007: 22%).

Included in trade receivables are balances from related parties of RON 79,925 (31 December 2007: RON 34,981) as presented in Note 27.

Trade receivables have been pledged in favour of banks as collateral for bank loans as described in Note 15. The total amount of pledged receivables as at 31 December 2008 is RON 78,469 (31 December 2007: RON 133,020).

(Expressed in RON thousand, unless otherwise stated)

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

Analysis by credit quality of trade and other receivables is as follows:

	2008		2007	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Current and not impaired	153,163	36,187	130,306	6,228
Total current and not impaired	153,163	36,187	130,306	6,228
Past due but not impaired				
- less than 30 days overdue	28,807	-	30,099	-
- 30 to 90 days overdue	20,506	-	8,642	-
- over 90 days overdue	17,722	-	557	-
Total past due but not impaired	67,035	-	39,298	-
Individually determined to be impaired (gross)				
- less than 30 days overdue	822	-	-	-
- 30 to 90 days overdue	1,600	-	-	-
- 90 to 360 days overdue	7,004	-	-	-
- over 360 days overdue	83,333	1,782	98,483	1,783
Total individually impaired	92,759	1,782	98,483	1,783
Less impairment provision	92,759	1,782	98,483	1,783
Total	220,198	36,187	169,604	6,228

12 CASH AND CASH EQUIVALENTS

	31 December 2008	31 December 2007
Cash at bank in RON	213,276	362,530
Cash at bank in foreign currency	3,259	3,729
Other cash equivalents	85,052	360
	301,587	366,619

(Expressed in RON thousand, unless otherwise stated)

12 CASH AND CASH EQUIVALENTS (CONTINUED)

The weighted average effective interest rate on short term bank deposits was 8.39 % at 31 December 2008 (31 December 2007: 6.53%) and these deposits had an average maturity of 30 days.

For the purpose of the cash flow statement, the year end cash and cash equivalents comprise the following:

	31 December 2008	31 December 2007
Cash and cash equivalents	301,587	366,619
Less: Bank overdrafts (Note 19)	-	(15,540)
	301,587	351,079

13 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital	Share premium	Total
Statutory				
At 31 December 2006	10,383,037	103,830	-	103,830
Increase	1,390,807	13,908	247,479	261,387
At 31 December 2007	11,773,844	117,738	247,479	365,217
At 31 December 2008	11,773,844	117,738	247,479	365,217
IFRS				
Hyperinflation adjustment to share capital cumulative to 31 December 2003	-	441,419	-	441,419
At 31 December 2008	-	559,157	247,479	806,636

(Expressed in RON thousand, unless otherwise stated)

13 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The authorised number of ordinary shares in Transgaz SA is RON 11,773,844 (31 December 2007: RON 11,773,844) with a nominal value of RON 10 each. Each share carries one vote. The shareholders structure at 31 December 2008 is presented below:

	Number of ordinary shares	Statutory amount (RON)	Percentage (%)
Romanian State, represented by Ministry of Economy and Commerce („MEC")	8,656,148	86,561,480	73.52015
Other shareholders	1,353,076	13,530,760	11.49222
Fondul „Proprietatea"	1,764,620	17,646,200	14.98763
	11,773,844	117,738,440	100.0000

There were no changes in shareholders structure in 2008.

In its statutory books, the Company has included in share capital certain revaluation differences for revaluations made prior to 31 December 2001. For the purposes of these financial statements prepared in accordance with IFRS, such increases have not been recognised as the hyperinflationary adjustments on fixed assets were recognised annually in the Statement of Income up to 31 December 2003. Consequently, in these financial statements the Company has only recorded share capital contributed in cash or kind, inflated from the date of the original contribution to 31 December 2003. The share capital increases which occurred after 1 January 2004 have been recognised in nominal terms as hyperinflation ceased after this date.

In 2007 the share capital was increased with 10%, namely 1.384.956 shares, through a public offering. Fondul Proprietatea acquired 207.572 shares and the rest of 1.177.384 shares are transacted on Bucharest Stock Exchange since 24 January 2008.

(Expressed in RON thousand, unless otherwise stated)

14 PUBLIC PROPERTY RESERVE, LEGAL RESERVE AND RETAINED EARNINGS

Public property reserve

A reserve corresponding to public property assets (Notes 2.8 and 4.4) was included as part of equity under the heading "Public Property Reserve" at the value of the respective assets restated for the inflation up to 1 January 2004.

Legal reserve

In accordance with Romanian legislation and its Articles of Incorporation, the Company has to transfer five percent of its profits per statutory books to a statutory reserve which can accumulate up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for distribution at 31 December 2008, amounted to RON 23,548 (31 December 2007: RON 23,548).

Dividends distribution

During year ended 31 December 2008, the Company has declared and distributed a dividend per share of RON 9.66 relating to prior year profit (2007: RON 11.69 per share).

15 LONG TERM BORROWINGS

Non-current portion of long term borrowings

	Currency	31 December 2008	31 December 2007
IBRD loan	USD	6,398	7,197
Gazprombank loans	USD	27,298	56,046
Efibanca loan	EUR	2,327	6,834
ABN Amro Bank loan	EUR	4,809	10,167
Unicredit Tiriac	RON	58,242	41,802
		99,074	122,046

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

Current portion of long term borrowings:

	Currency	31 December 2008	31 December 2007
IBRD loan	USD	1,905	1,535
Gazprombank loans	USD	37,372	32,389
Raiffeisen Bank loan	EUR	-	1,541
Efibanca loan	EUR	5,215	6,080
ABN Amro Bank loan	EUR	6,413	5,810
Unicredit Tiriac	RON	21,178	11,148
		72,083	58,503

A description of the long term borrowing follows.

IBRD loan

The loan from the International Bank for Reconstruction and Development ("IBRD" - RO 3723) was provided for the rehabilitation of the oil and gas sector in Romania under a Project Agreement signed on 1 June 1994.

As holding company of the Romgaz group of companies, the entire loan was nominally repayable by SNGN Romgaz, the predecessor company of Transgaz. However, in accordance with Government Decision 334/2000, following the restructuring of the gas sector in 2000, part of this borrowing was transferred to the newly created entities. The portion of the IBRD loan recognised by the Company is based upon an agreement concluded between the successor entities of SNGN Romgaz.

The Company also concluded a subsidiary loan agreement with the Ministry of Finance regarding its portion of this loan on 2 October 2001, and the original loan agreement between the Romanian Government and the IBRD has been amended to include the reorganisation of former Romgaz.

The loan is denominated in USD (the balances at 31 December 2008 and 2007 were USD 2,930 thousand and USD 3,555 thousand respectively) and carries an interest rate of 0.5% over the cost of Qualified Borrowings as defined by the IBRD. The interest rate applicable in 2008 was approximately 9.7% (2007: approximately 5%). Repayments are made twice a year. The principal and interest are repaid to the Ministry of Finance at least 15 days prior to the date of repayment by the Ministry of Finance to IBRD. Payments to Ministry of Finance may also be made in RON equivalent at the exchange rate at the date of payment plus a 5% refundable fee in order to protect the Ministry of Finance against foreign exchange losses and a 10% commission on the interest paid.

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

The loan is secured by a deposit pledged by the Company in favour of the Ministry of Finance. The deposit is equal to the following instalment to be repaid. As at 31 December 2008 the deposit amounts to USD 400,000 (31 December 2007: USD 400,000).

The maturity of the IBRD loan is set out bellow:

	31 December 2008	31 December 2007
Within 1 year	1,905	1,535
Between 1 and 2 years	2,049	1,651
Between 2 and 5 years	4,349	5,546
Over 5 years	-	-
	8,303	8,732

Gazprombank loan

The Company contracted two loans from Gazprombank for investment projects. Both loans from Gazprombank are denominated in USD and were entirely drawn down by 31 December 2005.

First loan

On 24 November 1999, the predecessor Company contracted a loan from Gazprombank, in order to finance the first stage of the construction of a new gas transit pipeline in Dobrogea.

The loan is repayable in monthly instalments and bears an interest rate of 0.5% per month for the outstanding balance. The balance of the loan as at 31 December 2008 is USD 9,247 thousand (31 December 2007: USD 14,292 thousand).

After the reorganisation of SNGN Romgaz SA the loan was taken over by Transgaz SA, the Company also being in charge of the related investment project (the Dobrogea transit pipeline).

Second loan

The second loan agreement with Gazprombank was concluded on 8 February 2001 for partial financing of the Dobrogea pipeline.

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

The loan is repayable in monthly instalments. The loan bears an interest rate of 1 month LIBOR + 2% (penalty interest rate in case of late payments: 1 month LIBOR + 4%). The balance as at 31 December 2008 is USD 13,568 thousand (31 December 2007: USD 21,710 thousand).

The aggregate maturity of the Gazprombank loans is set out bellow.

	31 December 2008	31 December 2007
Within 1 year	37,372	32,389
Between 1 and 2 years	27,298	32,389
Between 2 and 5 years	-	23,657
Over 5 years	-	-
	64,670	88,435

The loans are collateralised by receivables from Gazexport under the gas transport contracts concluded with the Company, as well as any other receivables from Gazexport, in this order. The amount of the pledged receivables as at 31 December 2008 is RON 14,479 (31 December 2007 RON 3,199).

Efibanca loans

The loans from Efibanca Spa, a company belonging to Banca Populare di Lodi banking group, were contracted in June 2003, September 2004 and January 2005 to finance the acquisition of valves and related installation services from TYCO Valves&Controls Italia SRL and RMA Germany. The loans are denominated in EUR and bear an interest of 4.38%, 3.87% and 3.60% per annum, respectively. The repayment of each drawing is done in ten bi-annual instalments. The balance as at 31 December 2008 is EUR 1,892 thousand (31 December 2007: EUR 3,577 thousand).

The maturity of the Efibanca loans is set out bellow.

	31 December 2008	31 December 2007
Within 1 year	5,215	6,080
Between 1 and 2 years	2,327	4,725
Between 2 and 5 years	-	2,109
	7,542	12,914

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

ABN AMRO Bank Loan

The loan was contracted in December 2005 for financing the investments of the Company. The maximum amount of the credit facility is EUR 6,437 thousand.

The interest rate is EURIBOR one month + 0.95% if the ratio of Total Debt / EBITDA is less than 3 and EURIBOR one month + 1.5% if the ratio of Total Debt / EBITDA is greater than 3. The repayment will be made until 30 September 2010 in six monthly instalments starting December 2006.

The loan is collateralised by receivables from Petrom in amount of RON 11,945 as at 31 December 2008.

The maturity of the ABN AMRO loan is set out bellow:

	Year ending 31 December 2008	Year ending 31 December 2007
Within 1 year	6,413	5,810
Between 1 and 2 years	4,809	5,810
Between 2 and 5 years	-	4,357
	11,222	15,977

Unicredit Tiriac loan

The loan was contracted on 31 October 2007 for funding of the Company's investment programme and carries an interest rate of BUBOR three months. The contracted value is RON 100,600. The loan is completely withdrawn and the repayment will start in March 2008 in quarterly instalments.

The maturity of the Unicredit loan is set out bellow:

	Year ending 31 December 2008	Year ending 31 December 2007
Within 1 year	21,178	11,148
Between 1 and 2 years	21,178	11,147
Between 2 and 5 years	37,064	30,655
	79,420	52,950

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

The loan is collaterised by receivables from E.ON Gaz SA, Interagro, Electrocentrale Galati and Termoelectrica SA as at 31 December 2008 in amount of RON 51,657.

Effective interest rate by category of loan can be summarized as follows:

	Year ending 31 December 2008 (%)	Year ending 31 December 2007 (%)
Long term loans in USD	5.8	6.7
Long term loans in EUR	5.5	5.0
Long term loans in RON	11.49	7.63

Fair value

The carrying amounts and fair values of long-term borrowings are as follows:

	Carrying amounts 31 December		Fair values 31 December	
	2008	2007	2008	2007
IBRD	8,303	8,732	8,462	8,663
Gazprom	64,670	88,435	64,902	88,771
Raiffeisen	-	1,541	-	1,505
ABN	11,222	15,977	11,654	16,672
Efibanca	7,542	12,914	7,495	12,709
Unicredit	79,420	52,950	76,522	49,846
	171,157	180,549	169,035	178,166

Fair value is determined based on the discounted value of the future cash flows, using a discount rate equal to the interest rate at which the management considers that the Companies could obtain similar borrowings, as at the balance sheet date.

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

The exposure of the Company's borrowings to interest rate changes is as follows:

	31 December 2008	31 December 2007
Variable interest rate	137,404	132,528
Fixed interest rate	33,753	48,021
	171,157	180,549

The variable interest rate can be further analysed as follows:

	31 December 2008	31 December 2007
6 months or less	129,101	123,796

The Company has following undrawn facilities:

	31 December 2008	31 December 2007
RON	-	59,460

16 DEFERRED INCOME

Deferred income consists of connection fees that are charged to customers for connecting them to the gas transportation network. The deferred income is released over the period in which related assets (connection pipes, gas flow regulator, counter) are depreciated.

(Expressed in RON thousand, unless otherwise stated)

17 INCOME TAX

Income tax expense/(credit)

	Year ended 31 December 2008	Year ended 31 December 2007
Income tax expense - current	46,136	45,325
Deferred tax recognised in equity	-	848
Deferred tax release - origination and reversal of temporary differences	(94,457)	(18,712)
Income tax expense / (credit) as reported	(48,321)	27,461

In 2008 and 2007, the Company accrued income taxes at the rate of 16% on profits computed in accordance with the Romanian tax legislation. Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before taxation	194,376	167,431
Theoretical tax charge at statutory rate of 16% (2007: 16%)	31,100	26,789
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	(90,802)	(11,475)
Tax credit	(3,459)	(3,099)
Non-deductible expenses	14,840	15,246
Income tax expense as reported	(48,321)	27,461

(Expressed in RON thousand, unless otherwise stated)

17 INCOME TAX (CONTINUED)

Deferred tax

Deferred tax assets/liabilities are measured at the enacted statutory effective tax rate of 16% as at 31 December 2008 (31 December 2007: 16%).

Deferred tax assets and liabilities and deferred tax expense/(income) in the income statement are attributable to the following items:

	31 December 2008	Movement	31 December 2007	Movement	31 December 2006
Deferred tax liabilities					
Restatement of property, plant and Equipment	23,195	(93,852)	117,047	(17,293)	134,340
Deferred tax assets					
Accruals	(1,203)	(240)	(963)	(185)	(778)
Adjustments to inventories	11	-	11	114	(103)
Provision for employee benefits	(3,545)	(365)	(3,180)	(1,348)	(1,832)
	(4,737)	(605)	(4,132)	(1,419)	(2,713)
Net deferred tax liability	18,458	(94,457)	112,915	(18,712)	131,627

The reduction in deferred tax in 2008 in respect of temporary differences in property, plant and equipment balances, was due to a statutory revaluation carried out as of 31 December 2008; this revaluation brought statutory (and tax) values closer to IFRS amounts.

(Expressed in RON thousand, unless otherwise stated)

17 INCOME TAX (CONTINUED)

The amounts shown in the balance sheet include the following:

	31 December 2008	31 December 2007
Deferred tax liabilities to be settled after more than 12 months as reported	18,458	107,868

18 TRADE AND OTHER PAYABLES

	31 December 2008	31 December 2007
Trade payables	107,075	87,511
Suppliers of fixed assets	33,834	15,062
Dividends	3,678	-
Payable to Ministry of Economy and Commerce (additional distribution years 2000 - 2003)	51,718	51,718
Other taxes	46,395	45,533
Employees payable	15,686	12,240
VAT payable	7,309	14,858
Other liabilities	5,128	6,535
	270,823	233,457

In 2005 the Ministry of Economy and Commerce has decided to charge the Company the equivalent of late payment interest for declared and unpaid dividends dating from the period 2000-2003. Being payable to the sole shareholder at the time, in substance they represented an additional distribution to shareholders. The majority shareholder of the Company has informed the management that the payment of the penalties can be deferred until further notice, allowing the Company use of the respective amount for continuing to develop the gas transportation network.

As at 31 December 2008, RON 525 (31 December 2007: RON 540) of trade and other payables are denominated in foreign currency, mainly EUR.

Included in trade payables are balances due to related parties of RON 78,706 (31 December 2007: RON 61,648), as presented in Note 27.

(Expressed in RON thousand, unless otherwise stated)

19 SHORT TERM BORROWINGS

Short-term borrowings are analyzed as follows:

	Currency	31 December 2008	31 December 2007
1. BRD overdraft	RON	-	15,512
2. ABN AMRO Bank overdraft	RON	-	28
Current portion of long term loans (Note 15)		72,083	58,503
		72,083	74,043

BRD overdraft

The BRD overdraft agreement was concluded in 2004 with a RON 20,000 ceiling. It was subsequently extended until 30 August 2009 and its ceiling increased to RON 45,000. The facility is secured with a pledge on receivables from the contract with Azomures in amount of RON 388 as at 31 December 2008 (31 December 2007: from contract with Electrocentrale Bucuresti SA in amount of RON 30,419).

Interest rate is 1 YEAR ROBOR + 0.4% p.a. (2007: BUBOR + 0.45% p.a). The effective interest rate in 2008 was 11.66% (2007: 8%).

ABN AMRO Bank overdraft

ABN AMRO Bank overdraft agreement was concluded in 2004 with a RON 20,000 ceiling. It was subsequently extended until 31 July 2008. The overdraft is secured by a general pledge over the Company's receivables. Interest rate was BUBOR + 0.5% p.a. The effective interest rate in 2008 was 7% (2007: 7%).

The carrying amount of short-term borrowings approximates their fair value.

(Expressed in RON thousand, unless otherwise stated)

20 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2008	31 December 2007
Current provision		
Provision for litigations	-	1,278

Legal claims

The amounts as at 31 December 2007 represent a provision for certain legal claims brought against the company by Petrom. In 2008 the litigation was resolved and the provision reversed.

21 PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

Under the collective labour contract, the Company is required pay its employees at the time of their retirement a lump-sum amount equal to a multiplier of their gross salary depending on the employment period in the gas industry, working conditions, etc. The present value of the provision was determined using the Projected Unit Credit Method. The following assumptions were used in the computation of the provision: a salary indexation rate related to the productivity increase rate, a staff turnover based on historical data and the time frame when the benefits are to be paid. The provision has been discounted to its present value by applying a discount factor based on the risk free interest rate (i.e. interest rate on government bonds issued in March 2007). Substantially all the amounts are payable in over one year.

The principal actuarial assumptions used for the computation at 31 December 2008 were as follows:

a) Discount rate:
   - For 2008 was considered 9.31% (2007: 12%) based on the yield of the 3 years RON denominated government bond issued in February 2008.
   - For 2009 was considered 9.51%, being the 5 years RON denominated government bond issued in September 2008.
   - For the following years was considered a decreasing trend and used an extrapolation along the real yield curve.

b) Inflation rate was estimated to be 6.57% p.a. for the year 2007, 7% p.a. for the year 2008, 6% p.a. for 2009 and 5.5% for the period 2010-2011, and following a decreasing pattern afterwards.

c) Salary increase rate –for 2009 no increase was considered. For subsequent years a salary increase rate of 3% over the consumer price index was estimated.

(Expressed in RON thousand, unless otherwise stated)

21 PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

d) The mortality rate during employment was based on the Romanian Mortality Table issued by the Romanian National Institute of statistics.

Movement in provision for employee benefits

	Provision
1 January 2007	11,452
Unwinding of the discount	778
Increase of provision	7,648
31 December 2007	19,878
Unwinding of the discount	1,801
Increase of provision	477
31 December 2008	22,156

22 OTHER INCOME

	Year ending 31 December 2008	Year ending 31 December 2007
Reimbursement of penalties for late payment	4,558	-
Revenues from connection fees	3,332	495
Revenues from sale of scrap materials	3,283	643
Other operating revenues	5,130	6,362
	16,303	7,500

(Expressed in RON thousand, unless otherwise stated)

23 OTHER OPERATING EXPENSES

	Year ending 31 December 2008	Year ending 31 December 2007
Sponsorship expenses	3,459	3,099
Utilities	4,562	3,887
Telecom	3,355	2,684
Loss on disposal of fixed assets, net	390	11,714
Bank and other commissions	755	2,013
Rent	934	933
Insurance premium	1,266	584
Bad debts written off	573	143
Impairment loss / (gain) of current assets	(3,698)	1,962
Charges in inventory of finished goods and work in progress	(3,404)	(552)
Research expenses	3,142	410
Marketing and protocol expenses	2,392	526
Other	8,514	4,444
Total	22,240	31,847

24 NET FINANCIAL INCOME/ (EXPENSE)

	Year ending 31 December 2008	Year ending 31 December 2007
Foreign exchange gains	6,502	7,641
Foreign exchange losses	(16,785)	(2,791)
Interest income	31,066	4,879
Interest expense	(16,585)	(12,197)
Unwinding of the discount provision for employee benefit	(1,801)	(778)
Other financial income / (expenses)	-	60
	2,397	(3,186)

(Expressed in RON thousand, unless otherwise stated)

25 CASH GENERATED FROM OPERATIONS

	Year ending 31 December 2008	Year ending 31 December 2007
Profit before tax	194,376	167,431
Adjustments for:		
Depreciation and amortisation	174,474	167,065
(Profit)/Loss on disposal of fixed assets	2,295	11,714
(Release)/Provisions for liabilities and charges	(1,278)	-
Provision for employee benefits	2,278	7,648
(Release)/Provisions for impairment of receivables	(5,724)	907
Inventories provisions (release)	2,027	1,055
Bad debts written off	573	143
Interest expense	16,585	12,197
Interest income	(31,066)	(4,879)
Effect of exchange rate changes on non-operating items	11,250	(2,456)
Operating profit before working capital changes	365,790	360,825
(Increase)/decrease in trade and other receivables	(116,805)	(14,423)
Decrease/(increase) in inventories	(11,017)	3,776
Increase/(decrease) in trade and other payables	41,166	(39,759)
Cash generated from operations	279,134	310,419

26 OTHER EMPLOYEE BENEFITS

According to past collective labour agreements, employees were entitled to receive free of charge 5,000 cubic meters of gas a year (or the cash equivalent computed at monthly medium domestic price per cubic meter); starting with March 2007 the amount has been increased to 6,500 cubic meters a year.

(Expressed in RON thousand, unless otherwise stated)

27 TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party, to exercise significant influence over the other party in making financial or operational decisions, is under common control with another party, is a joint venture in which the entity is a venturer or is part of the key management personnel as defined by IAS 24 "Related Party Disclosure". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The majority shareholder in the Company is the Romanian State through the Ministry of Economy and Commerce; except for BAT Medias the related parties presented below are entities in which the Romanian State has significant influence and thus presented as entities under common control.

During the years ended 31 December 2008 and 31 December 2007 the following transactions were carried out with related parties and the following balances were payable/receivable at the respective dates:

i) Revenues from related parties – services and gas sold

	Relationship	31 December 2008	31 December 2007
SNGN Romgaz	Entity under common control	3,935	5,461
Termoelectrica	Entity under common control	14,812	23,709
Electrocentrale Deva SA	Entity under common control	12,334	6,629
Electrocentrale Bucureşti SA	Entity under common control	169,767	124,746
Electrocentrale Galaţi SA	Entity under common control	26,000	19,143
Grup Dezvoltare Retele SA	Entity under common control	987	797
BAT Mediaş	Entity under the control of key management personnel	-	2
		227,835	180,487

(Expressed in RON thousand, unless otherwise stated)

27 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

ii) Receivables from related parties

	Relationship	31 December 2008	31 December 2007
SNGN Romgaz	Entity under common control	482	1
Termoelectrica (net of provision)	Entity under common control	1,321	1,493
Electrocentrale Deva SA	Entity under common control	1,879	380
Electrocentrale Bucureşti SA	Entity under common control	71,786	30,419
Electrocentrale Galaţi SA	Entity under common control	4,274	2,435
Grup Dezvoltare Reţele SA	Entity under common control	183	253
		79,925	34,981

iii) Acquisitions of gas from related parties

	Relationship	31 December 2008	31 December 2007
SNGN Romgaz	Entity under common control	230,233	176,712

iv) Acquisitions of services from related parties (other services)

	Relationship	31 December 2008	31 December 2007
SNGN Romgaz	Entity under common control	58	32
Electrocentrale Deva SA	Entity under common control	30	33
Nabucco Company Pipeline Study Gmbh	Investment in associate	-	274
BAT Mediaş	Entity under control of key management personnel	-	1,083
		88	1,422

(Expressed in RON thousand, unless otherwise stated)

27 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

v) Payables to related parties

	Relationship	31 December 2008	31 December 2007
SNGN Romgaz	Entity under common control	78,325	61,162

vi) Payables to related parties (other services)

	Relationship	31 December 2008	31 December 2007
SNGN Romgaz	Entity under common control	8	12
Electrocentrale Deva SA	Entity under common control	10	5
Nabucco Company Pipeline Study Gmbh	Investment in associate	-	-
BAT Medias	Entity under common control	-	58
		18	75

vii) Key management compensation

	Year ending 31 December 2008	Year ending 31 December 2007
Salaries paid to key management	3,595	2,058

viii) Loan to related party

	Year ending 31 December 2008	Year ending 31 December 2007
Loan to Resial SA	1,782	1,783
less provision for impairment of loan	(1,782)	(1,783)
	-	-

(Expressed in RON thousand, unless otherwise stated)

28 EARNINGS PER SHARE

The Company's shares are listed under the first category of the Bucharest Stock Exchange. 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 in issue during the year.

	Year ending 31 December 2008	Year ending 31 December 2007
Profit/(loss) attributable to equity holders of the Company	242,697	139,970
Weighted average to number of shares	11,773,844	10,504,301
Basic (loss)/earnings per share (RON per share) as reported	20.61	10.38
Basic (loss)/earnings per share (RON per share) as restated	20.61	13.33

29 SIGNIFICANT NON-CASH TRANSACTIONS

Mutual cancellations

Approximately 3% of accounts receivable were settled via non-cash transactions during the year ended 31 December 2008 (2007: 13%). The transactions represent mainly sale of products and services in exchange for raw materials and services or cancellation of mutual balances with customers and suppliers within the operating cycle.

Barter transactions

There were no barter transactions during 2008; in 2007 these amounted to RON 108,975 and consisted of gas received from Gazexport Russia in exchange for the gas transit services provided by the Company.

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

(i) Commitments

The Concession Agreement specifies that, at the end of the Agreement, ANRM has the right to receive back, free of any charge or encumbrance, property, plant and equipment with an estimated gross book value of RON 2,808,987, representing all public property assets existing at the time when the agreement was signed and all the investments which are done to the gas pipeline system, according to the investments programme set out in the Concession Agreement. The Company also has other obligations in respect of the concession agreement as described in Note 7.

(ii) Operating environment of the Company

Romania displays certain characteristics of an emerging market, including moderate inflation, exchange rate volatility, capital markets which lack depth and frequent changes in fiscal, customs and company legislation. Management is unable to predict all developments in the economic environment which could have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company.

(iii) Recent volatility in global financial markets

Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of wholesale financing by Romanian banks has significantly reduced during 2007 and 2008. Such circumstances may affect the ability of the Company to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors or borrowers of the Company may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Company's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

(iv) Taxation

The Romanian taxation system has just undergone a process of consolidation and harmonisation with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (accruing at a rate of approximately 36% p.a. in 2007, same for 2008). In Romania, tax periods remain open for 5 years. The Company's management considers that the tax liabilities included in these financial statements are fairly stated.

(v) Insurance policies

The Company holds no insurance policies in relation to its operations, product liability, or in respect of public liability. The Company has insurance policies for buildings and mandatory 3rd party liability insurance for its car fleet.

(vi) Environmental matters

Environmental regulations are developing in Romania and the Company has not recorded any liability at 31 December 2008 for any anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, related to environmental matters. Management do not consider the costs associated with environmental issues to be significant.

(vii) Legal proceedings

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant). Except for the matter described below, the Company's management believes that the ultimate resolution of these matters will not have a material adverse effect on the amounts of operations or the financial position of the Company.

(viii) Government policy in the gas sector in Romania

As part of the ongoing process of restructuring of the gas sector in Romania, the Romanian Government and Parliament may continue to adopt new legislation that impacts the sector in general, and the Company in particular.

(Expressed in RON thousand, unless otherwise stated)

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

ANRE is an autonomous public body and establishes the gas transport tariffs charged by the Company. It is possible that the Agency might decide to implement changes in Governmental strategies in the gas sector which could lead to significant changes to the tariffs and hence significantly impact the Company's revenue.

It is not possible to establish at this stage the effects, if any, of future Government policy in the gas sector in Romania on the value of the assets and liabilities of the Company.

31 SUBSEQUENT EVENTS

Dividends

In April 2009 the Company declared dividends of RON 10.47 per share.

Share capital structure

At 17 February 2009, the Company registered at Sibiu Trade Register certain changes in shareholder structure following the finalisation of share allocation by Ministry of Economy as per Law 10/2001 and GO 1095/2005. The new structure is as follows:

	Number of ordinary shares	Statutory amount (RON)	Percentage (%)
Romanian State, represented by Ministry of Economy and Commerce („MEC")	8,656,083	86,560,830	73.51960
Other shareholders	1,353,141	13,531,410	11.49277
Fondul „Proprietatea"	1,764,620	17,646,200	14.98763
	11,773,844	117,738,440	100.0000