SNTGN TRANSGAZ SA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

TRANSGAZ SA

FINANCIAL STATEMENTS

31 DECEMBER 2007

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Independent Auditor's Report

To the Shareholders of SNTGN Transgaz SA

Report on the Financial Statements

We have audited the accompanying financial statements of SNTGN Transgaz SA (the "Company") which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SNTGN Transgaz SA as of 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matters

This report is addressed solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit SRL

PRICEWATERHOUSECOOPERS AUDIT S.R.L.

Bucharest, 18 July 2008

TRANSGAZ SA

BALANCE SHEET

31 DECEMBER 2007
(Expressed in RON thousand, unless otherwise stated)

	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Intangible assets	8	14,034	11,131
Property, plant and equipment	6	2,631,467	2,637,976
Available for sale financial assets	9	27	3
		2,645,528	2,649,110
Current assets			
Inventories	10	31,372	36,204
Trade and other receivables	11	175,832	161,433
Cash and cash equivalents	12	366,619	79,259
		573,823	276,896
Total assets		3,219,351	2,926,006
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	13	559,157	545,249
Share premium	13	251,933	-
Public property reserve	14	1,265,797	1,265,797
Retained earnings	14	477,732	490,094
		2,554,619	2,301,140
Non-current liabilities			
Long term borrowings	15	122,046	130,071
Provision for employee benefits	21	19,878	11,452
Deferred income	16	92,049	49,144
Deferred tax liability	17	107,868	131,627
		341,841	322,294

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

TRANSGAZ SA

BALANCE SHEET

31 DECEMBER 2007
(Expressed in RON thousand, unless otherwise stated)

	Note	31 December 2007	31 December 2006
Current liabilities			
Trade and other payables	18	233,457	218,726
Current income tax liabilities	17	14,113	16,859
Short term borrowings	15, 19	74,043	65,709
Provision for liabilities and charges	20	1,278	1,278
		322,891	302,572
Total liabilities		664,732	624,866
Total equity and liabilities		3,219,351	2,926,006

These financial statements have been approved for issue by the Board of Directors on 25 June 2008.

ROMANIA
TRANSGAZ
S.A.
MEDIAŞ
J32/301/2000
Societatea Naţională de Transport Gaze Naturale

Ioan Rusu
General Manager

Radu Moldovan
Economic Department Manager

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in RON thousand, unless otherwise stated)

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Revenue		1,035,905	905,760
Other income	22	7,500	29,197
		1,043,405	934,957
Depreciation and amortisation	6; 8	(182,436)	(165,297)
Wages and salaries		(181,093)	(146,701)
Gas, materials and consumables used		(154,669)	(179,024)
Cost of gas sold		(109,553)	(71,488)
Maintenance and transportation		(83,163)	(61,508)
Royalty expense		(60,864)	(42,313)
Other employee benefits	26	(43,072)	(43,860)
Third party services		(17,617)	(11,690)
Taxes and other state dues		(11,485)	(8,053)
Provision for employee benefits	21	(7,648)	(150)
Provision for liabilities and charges	20	-	11,691
Other operating expenses	23	(58,031)	(40,283)
Operating profit		133,774	176,281
Financial income	24	12,580	38,778
Financial expense	24	(15,766)	(20,981)
Profit before taxation		130,588	194,078
Taxation	17	(21,565)	(32,517)
Net profit for the period		109,023	161,561

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)	10.25	15.56
Dividend distribution (RON/share, Note 14)	11.69	6.88

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

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in RON thousand, unless otherwise stated)

	Note	Share capital	Share premium	Public property reserve	Retained earnings	Total equity
Balance at 1 January 2006		545,222	-	1,265,797	387,855	2,198,874
Prior period correction	6	-	-	-	18,301	18,301
Balance as at 1 January 2006 (restated)		545,222	-	1,265,797	406,156	2,217,175
Share capital increase	13	27	-	-	-	27
Profit for the year		-	-	-	161,561	161,561
Distribution of dividends From 2005 profit		-	-	-	(71,389)	(71,389)
Additional distribution decided by majority shareholder[1)]		-	-	-	(6,234)	(6,234)
Balance at 31 December 2006		545,249	-	1,265,797	490,094	2,301,140
Balance at 1 January 2007		545,249	-	1,265,797	471,793	2,282,839
Share capital increase	13	13,908	-	-	-	13,908
Share premium	13	-	251,933	-	-	251,933
Profit for the year		-	-	-	109,023	109,023
Dividends	14	-	-	-	(121,385)	(121,385)
Balance at 31 December 2007		559,157	251,933	1,265,797	477,732	2,554,619

[1)] The Ministry of Economy and Commerce, as main shareholder of Transgaz, has decided to require the Company to make an additional distribution in relation to the dividends declared and unpaid during the period 2000-2003, which management had decided to retain in the Company based on their interpretation of existing legislation. Given the substance of this additional distribution, the Company's management decided to record and present it as a movement in retained earnings (see also Note 18).

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in RON thousand, unless otherwise stated)

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Cash generated from operations	25	305,965	340,305
Interest paid, net		(7,450)	(12,870)
Income taxes paid		(48,070)	(35,628)
Net cash inflow from operating activity		250,445	291,807
Cash flow from investment activities			
Payments to acquire property, plant and equipment		(140,072)	(147,176)
Proceeds from disposal of property plant and equipment		563	20,272
Sale of financial investments		-	1,157
Net cash used in investment activities		(139,509)	(125,747)
Cash flow from financing activities			
Increase of share capital	13	13,849	-
Share premium	13	251,933	-
Dividends paid	14	(121,385)	(71,391)
Proceeds from long term borrowings		52,950	25,890
Repayments of long term borrowings		(18,143)	(89,590)
Net cash used in financing activities		179,204	(135,091)
Net change in cash and cash equivalents		290,140	30,969
Cash and cash equivalents at the beginning of the year	12	60,939	29,970
Cash and cash equivalents at the end of the year	12	351,079	60,939

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

1 GENERAL INFORMATION

The National Company for Transportation of Natural Gas – SNTGN Transgaz SA ("the Company") is a company having as core activity 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 Finance.

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 gas sector in the shares held by the former 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, the successor entity of Romgaz SA; Exprogaz SA, a natural gas exploration, production and storage company, incorporating the activities of the former Exprogaz Medias and Exprogaz Targu Mures; Depogaz SA, a natural gas exploration, production and storage company, the successor entity of Exprogaz Ploiesti SA; Distrigaz Nord SA, a gas distribution company covering the northern half of the country; 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 Mediaş and Depogaz SA Ploieşti.

The gas sector is regulated by the National Agency for Regulation of the Energy Sector ("Agenția Națională pentru Reglementare în Energie" – "ANRE") as stated in the 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 to end users of natural gas;
- setting criteria, requirements and procedures related to the selection of eligible customers;
- 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 25 June 2008.

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) *Standards, amendment and interpretations effective in 2007*

Certain new pronouncements became effective for the Company from 1 January 2007. Listed below are those new or amended standards or interpretations which in the future could be relevant to the Company's operations and the nature of their impact on the Company's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the company's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. This amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Company's financial statements.

IFRIC 10, 'interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Company's financial statements.

(b) *Standards, amendments and interpretations effective in 2007 but not relevant*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company's operations:

- IFRS 4, 'Insurance Contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives';
- IFRIC 11, 'IFRS 2 – Group and treasury shares transactions' (effective from 1 March 2007); IFRIC 11 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.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods but the Company has not early adopted them:

- Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Company does not expect the amendment to affect its consolidated financial statements;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- IAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It 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 Company will apply IAS 23 (Amended) from 1 January 2009 and management is currently assessing the impact of the standard;
- IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Company does not expect significant the amendment to affect its financial statements;
- Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company does not expect the amendment to affect its financial statements;
- IFRIC 14, 'IAS 19 – The limit of a definite limited asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Company's accounts;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- IFRIC 12, ‘Service concession arrangements’ (effective from 1 January 2008). IFRIC 12 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.

  Management is currently assessing the impact of the adoption of IFRIC 12 on the Company’s financial statements.
- IFRS 8, ‘Operating segments’ (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of 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 estimates that its adoption will have no impact of the Company presentation of segment information.

(d) *Interpretations to existing standards that are not yet effective and not relevant for the Company’s operations*

The following interpretations to existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the Company’s operations:

- IFRIC 13, ‘Customer loyalty programmes’ (effective from 1 July 2008). IFRIC 13 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 not relevant to the Company’s operations as it does not operate any loyalty programmes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.3 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 2007, the exchange rate communicated by the National Bank of Romania, was US Dollar ("USD") 1 = RON 2.4564 (31 December 2006: USD 1 = RON 2.5676) and Euro ("EUR") 1 = RON 3.6102 (31 December 2006: EUR 1 = RON 3.3817). Exchange restrictions and currency controls exist relating to converting RON into other currencies. The RON is not a convertible currency outside of Romania.

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.

(Expressed in RON thousand, unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 ocurred.

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 in Government Decision 334/2000, specifies that fixed assets with a historical statutory gross book value of RON 499,726 (at 31 December 2007 a statutory historical gross book value RON 483,590 and a restated net book value of RON 463,120), 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) 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).

(b) 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.

(c) 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 do 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 'selling and marketing costs' 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 current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the balance sheet date in Romania. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognised to the extent that it is probable that 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.

2.20 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 weighted average useful life of the related assets (connection pipes, gas flow regulator, counter).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Free gas is measured at the regulated selling price applied to the agreed quantity as per collective labour contract.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 are used to cover repayment of foreign currency denominated borrowings.

(Expressed in RON thousand, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

	2007	**2006**
Impact on profit and loss and on equity of:		
US Dollar strengthening by 10%	(8,298)	(13,152)
US Dollar weakening by 10%	8,298	13,152
Euro strengthening by 10%	(2,438)	(3,762)
Euro weakening by 10%	2,438	3,762

(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, profit for the year would have been lower/higher by RON 5,803 (2006: 5,809 RON).

(iii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

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 has not entered into any arrangements to mitigate this risk.

At 31 December 2007, 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 51 (2006: RON 72) 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 2007, if interest rates had been 50 basis points lower/higher with all other variables held constant, profit for the year would have been RON 702 (2006: RON 917) higher/lower, mainly as a result of lower interest expense on variable interest liabilities.

(Expressed in RON thousand, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

Credit risk arises mainly 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 75% of trade receivable balance at 31 December 2007 (2006: 85%). 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.

The table below shows liabilities at 31 December 2007 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 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	248,848	248,848	-	-
	471,316	330,286	141,030	-

The maturity analysis of financial liabilities at 31 December 2006 is as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans and borrowings	196,278	66,207	128,128	1,943
Trade & other payables	236,863	236,863	-	-
	433,141	303,070	128,128	1,943

(Expressed in RON thousand, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

During 2007, the Company's strategy, which was unchanged from 2006, was to maintain the gearing ratio as low as possible. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
Total borrowings (Notes 15 and 19)	196,089	195,780
Less: cash and cash equivalents (Note 11)	(366,619)	(79,259)
Net debt	(170,530)	116,521
Total equity	2,554,619	2,301,140
Total capital	2,384,089	2,417,661
Gearing ratio	Not applicable	4.86%

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

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).

4.4 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 one element taken into account in computing the transportation tariff;
- recovery of any increases in royalty in full is not guaranteed and
- tariffs may increase with up to a year's delay after changes in royalty.

(Expressed in RON thousand, unless otherwise stated)

5 SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2007 and as at 31 December 2006, the Company has three main business segments, as follows: domestic gas transportation, international gas transit and gas supply.

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	138,152	37,401	-	6,882	182,436
Operating expenses other than depreciation	581,440	30,541	109,553	5,661	727,195
Operating income	15,542	122,325	743	(4,836)	133,774
Net financial loss	-	-	-	-	(3,186)
Gross profit	-	-	-	-	130,588
Taxation	-	-	-	-	21,565
Net profit	-	-	-	-	109,023
Segment assets	1,772,807	661,587	-	784,957	3,219,351
Segment liabilities	92,114	88,435	-	484,183	664,732
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)

5 SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2006

	Domestic gas transportation	International gas transit	Gas supply	Unallocated	Total
External sales	620,811	212,667	71,623	659	905,760
Other income	-	-	-	29,197	29,197
Total revenue	620,811	212,667	71,623	29,856	934,957
Depreciation	123,980	37,630	-	3,687	165,297
Operating expenses other than depreciation	490,103	19,449	71,488	83,827	593,379
Operating income	6,728	155,588	135	13,830	176,281
Net financial revenue	-	-	-		17,797
Gross profit	-	-	-		194,078
Taxation	-	-	-		(32,517)
Net profit	-	-	-		161,561
Segment assets	1,938,269	692,566	9,128	286,043	2,926,006
Segment liabilities	52,194	126,293	-	446,379	624,866
Capital expenditure	169,367	1,708	-	2,013	173,088
Non-cash expenses other than depreciation	13,157	71,521	-	12	84,690

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

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

(Expressed in RON thousand, unless otherwise stated)

5 SEGMENT INFORMATION (CONTINUED)

	Domestic customers	Foreign customers	Total
Turnover	692,435	213,325	905,760
Other income	-	-	29,197

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 16,433.

6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transportation system assets	Other fixed assets	Assets in course of construction	Total
Opening net book value	297,738	2,135,634	78,999	108,415	2,620,786
Additions	-	-	-	184,261	184,261
Transfers from AICC	8,444	155,819	8,825	(173,088)	-
Net book value of disposals	(5,371)	(587)	(252)	-	(6,210)
Depreciation charge	(13,898)	(128,947)	(18,016)	-	(160,861)
Closing net book value	286,913	2,161,919	69,556	119,588	2,637,976
At 31 December 2006					
Cost	463,570	4,728,427	303,445	119,588	5,615,030
Accumulated depreciation	(176,657)	(2,566,508)	(233,889)	-	(2,977,054)
Net book value	286,913	2,161,919	69,556	119,588	2,637,976
Opening net book value	286,913	2,161,919	69,556	119,588	2,637,976
Additions	-	-	-	203,438	203,438
Transfers from AICC	36	192,140	28,776	(220,952)	-
Net book value of disposals	(3,861)	(28,746)	(577)	-	(33,184)
Depreciation charge	(16,985)	(140,601)	(19,177)	-	(176,763)
Closing net book value	266,103	2,184,712	78,578	102,074	2,631,467
At 31 December 2007					
Cost	457,794	4,659,333	329,551	102,074	5,548,752
Accumulated depreciation	(191,691)	(2,511,223)	(250,973)	-	(2,917,285)
Net book value	266,103	2,184,712	78,578	102,074	2,631,467

(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 1,598,237 (2006: RON 1,544,832).

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:

Cost	Year ended 31 December 2007	Year ended 31 December 2006
1 January	2,686,874	2,686,874
Additions	18	-
Disposals	(239,619)	-
31 December	2,447,273	2,686,874
Depreciation		
1 January	2,145,425	2,089,017
Charge for the year	54,996	56,407
Disposals	(216,268)	-
31 December	1,984,153	2,145,424
Net book value	463,120	541,450

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.

Correction of prior period error

During a review of the public fixed assets used by the Company under the concession agreement, the following error was identified and corrected: prior to 2005, a number of public property assets with a carrying value of RON 18,301 used by the Company were de-commissioned and impaired pending their retirement. The assets were subsequently disposed of and written-off but the impairment provision was not reversed. In accordance with IAS 8, the error was corrected by reversing the respective provision through the opening retained earnings of the earliest period presented (fiscal 2006), thus increasing the value of fixed assets and retained earnings with this amount.

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 or otherwise dispose of any asset which is part of the pipeline system.

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 ANRGN;
- 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	9,810	739	10,549
Additions	5,730	3,724	9,454
Disposals	-	(4,436)	(4,436)
Amortisation	(4,436)	-	(4,436)
Closing net book value	11,104	27	11,131
At 31 December 2006			
Cost	34,881	27	34,908
Accumulated depreciation	(23,777)	-	(23,777)
Net book value	11,104	27	11,131
Opening net book value	11,104	27	11,131
Additions	3,301	10,626	13,927
Disposals	-	(5,351)	(5,351)
Amortisation	(5,673)	-	(5,673)
Closing net book value	8,732	5,302	14,034
At 31 December 2007			
Cost	38,204	5,302	43,506
Accumulated amortisation	29,472	-	29,472
Net book value	8,732	5,302	14,034

(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 2007	31 December 2006
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	20	24	-
Less provision for impairment of investments in Resial and Mebis			(24,578)	(24,578)
			27	3

Investment in Resial SA

The shares in Resial SA were received in December 2003 through enforced collection of receivables from a customer. The company is in liquidation; 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 forced 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 is a limited liability company, with headquarters in Vienna, Austria, established in order to facilitate the construction of a gas pipeline from Turkey through Bulgaria, Romania and Hungary to Austria.

Transgaz participates with four other shareholders in the share capital of this company, each holding a participation of 20% of the share capital.

(Expressed in RON thousand, unless otherwise stated)

10 INVENTORIES

	31 December 2007	31 December 2006
Spare parts and materials	34,469	38,245
Provisions for slow moving inventories	(3,097)	(2,041)
	31,372	36,204

11 TRADE AND OTHER RECEIVABLES

	31 December 2007	31 December 2006
Trade receivables	268,087	254,776
Advances from suppliers	15	14
VAT recoverable	510	392
Loan to Resial SA	1,783	2,235
Other receivables	5,703	3,375
Provision for impairment of receivables	(98,483)	(97,124)
Provision for impairment of other loan to Resial SA	(1,783)	(2,235)
	175,832	161,433

As at 31 December 2007, RON 16,981 (31 December 2006: RON 17,651) of net trade and other receivables are denominated in foreign currency, 78% in USD (2006: 77%) and 22% in EUR (2006: 23%).

Included in trade receivables are balances from related parties of RON 105,179 (31 December 2006: RON 117,253) 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 2007 is RON 133,020 (31 December 2006: RON 78,318).

(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:

	2007		2006	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Current and not impaired	130,306	6,228	99,967	3,781
Total current and not impaired	130,306	6,228	99,967	3,781
Past due but not impaired	39,298	-	57,685	-
- less than 30 days overdue	30,099	-	44,620	-
- 30 to 90 days overdue	8,642	-	1,124	-
- over 90 days overdue	557	-	11,941	-
Total past due but not impaired	39,298	-	57,685	-
Individually determined to be impaired (gross)				
- over 360 days overdue	98,483	1,783	97,124	2,235
Total individually impaired	98,483	1,783	97,124	2,235
Less impairment provision	98,483	1,783	97,124	2,235
Total	169,604	6,228	157,652	3,781

12 CASH AND CASH EQUIVALENTS

	31 December 2007	31 December 2006
Cash at bank in RON	362,530	77,310
Cash at bank in foreign currency	3,729	1,711
Other cash equivalents	360	238
	366,619	79,259

(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 6.53% at 31 December 2007 (31 December 2006: 3.35%) 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 2007	31 December 2006
Cash and cash equivalents	366,619	79,259
Less: Restricted cash	-	(1,027)
Less: Bank overdrafts (Note 19)	(15,540)	(17,293)
	351,079	60,939

13 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital	Share premium	Total
Statutory				
At 31 December 2005	10,380,320	103,803	-	103,803
Increase	2,717	27	-	27
At 31 December 2006	10,383,037	103,830	-	103,830
Increase	1,390,807	13,908	251,933	265,841
At 31 December 2007	11,773,844	117,738	251,933	369,671
IFRS				
Hyperinflation adjustment to share capital cumulative to 31 December 2003	-	441,419	-	441,419
At 31 December 2007	-	559,157	251,933	811,090

(Expressed in RON thousand, unless otherwise stated)

13 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The authorised number of ordinary shares in Transgaz SA is 11,773,844 (31 December 2006: 10,383,037) with a nominal value of RON 10 each. Each share carries one vote. The shareholders structure at 31 December 2007 is presented below:

	Number of ordinary shares	Statutory amount (RON)	Percentage (%)
Romanian State, represented by Ministry of Economy and Commerce („MEC”)	8,831,840	88,318	75.012
Other shareholders	1,177,384	11,774	10.000
Fondul „Proprietatea”	1,764,620	17,646	14.988
	11,773,844	117,738	100,00

The shareholders structure at 31 December 2006 is presented below:

	Number of ordinary shares	Amount (RON)	Percentage (%)
Romanian State, represented by Ministry of Economy and Commerce („MEC”)	8,825,989	88,260	85,004%
Fondul „Proprietatea”	1,557,048	15,570	14,996%
	10,383,037	103,830	100,00%

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.

The increase 2006 relates to land which has been contributed to share capital by the Ministry of Economy and Commerce.

13 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

An amount of RON 59, part of the increase of share capital in 2007 represents land which has been contributed by the Ministry of Economy and Commerce.

The Company has further increased its share capital by 10%, representing a number of 1,038,304 shares by public offering; one of the initial shareholder Fondul "Proprietatea" exercised its preference right and has acquired 207,572 shares, the rest being offered to the public during the period 26 November – 7 December 2007. The nominal value of the share capital increase was RON 13,850 and the share premium amounted to RON 251,951.

14 PUBLIC PROPERTY RESERVE, LEGAL RESERVE AND RETAINED EARNINGS

Public property reserve

A reserve corresponding to public property assets (Notes 2.8 and 4.7) 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 2007, amounted to RON 23,548 (31 December 2006: RON 20,766).

Dividends distribution

During year ended 31 December 2007, the Company has declared and distributed a dividend per share of RON 11.69 relating to prior year profit (2006: RON 6.88 per share).

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS

Non-current portion of long term borrowings

	Currency	31 December 2007	31 December 2006
IBRD loan	USD	7,197	9,129
Gazprombank loans	USD	56,046	92,438
Raiffeisen Bank loan	EUR	-	1,443
Efibanca loan	EUR	6,834	12,096
ABN Amro Bank loan	EUR	10,167	14,965
Unicredit Tiriac	RON	41,802	-
		122,046	130,071

Current portion of long term borrowings:

	Currency	31 December 2007	31 December 2006
IBRD loan	USD	1,535	1,491
Gazprombank loans	USD	32,389	33,855
Raiffeisen Bank loan	EUR	1,541	1,932
Efibanca loan	EUR	6,080	5,696
ABN Amro Bank loan	EUR	5,810	5,442
Unicredit Tiriac	RON	11,148	-
		58,503	48,416

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 year 2000 restructuring of the gas sector when Transgaz became a standalone entity, 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.

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

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 2007 and 2006 were USD 3,555 thousand and USD 4,136 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 2007 was approximately 5% (2006: 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.

The loan was entirely drawn down and partially repaid by 31 December 2007.

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 2007 the deposit amounts to USD 400,000 (31 December 2006: USD 400,000).

The maturity of the IBRD loan is set out bellow:

	31 December 2007	31 December 2006
Within 1 year	1,535	1,491
Between 1 and 2 years	1,651	1,604
Between 2 and 5 years	5,546	5,580
Over 5 years	-	1,945
	8,732	10,620

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.

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

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 2007 is USD 14,292 thousand (31 December 2006: USD 19,336 thousand).

The loan is 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 2007 is RON 3,199 (31 December 2006 RON 12,866).

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.

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 2007 is USD 21,710 thousand (31 December 2006: USD 29,851 thousand).

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

	31 December 2007	31 December 2006
Within 1 year	32,389	33,855
Between 1 and 2 years	32,389	33,855
Between 2 and 5 years	23,657	58,583
Over 5 years	-	-
	88,435	126,293

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

Raiffeisen Bank loans

First loan

The first loan from Raiffeisen Bank was contracted in April 2003 to finance the acquisition of specific equipment for the gas transportation network, purchased from RMA Maschinen und Armaturenbau Keh. The interest rate applied was EURIBOR 3 months + 2% per year. The loan was denominated in EUR and was guaranteed with the receivables from Distrigaz Sud SA, a pledge on the bank accounts opened at the bank and a promissory note issues at sight for the whole amount of the loan. The loan was completely repaid by 31 March 2006.

Second loan

The second loan from Raiffeisen Bank was contracted in September 2005 for financing the modernization of some of the Company's assets. The loan is denominated in EUR and bears an interest rate of EURIBOR 1 month + 2% per year and is repayable in 8 quarterly instalments starting with October 2006.

The maturity of the Raiffeisen Bank loan is set out bellow.

	31 December 2007	31 December 2006
Within 1 year	1,541	1,932
Between 1 and 2 years	-	1,443
Between 2 and 5 years	-	-
	1,541	3,375

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 2007 is EUR 3,577 thousand (31 December 2006: EUR 5,261 thousand).

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

The maturity of the Efibanca loans is set out bellow.

	31 December 2007	31 December 2006
Within 1 year	6,080	5,696
Between 1 and 2 years	4,725	5,696
Between 2 and 5 years	2,109	6,400
	12,914	17,792

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 maturity of the ABN AMRO loan is set out bellow:

	Year ending 31 December 2007	Year ending 31 December 2006
Within 1 year	5,810	5,442
Between 1 and 2 years	5,810	5,442
Between 2 and 5 years	4,357	9,523
	15,977	20,407

Unicredit Tiriac loan

The loan was contracted on 31 October 2007 following a public tender with an interest rate of BUBOR three months and its destination is the partial funding of the Company's investment programme. The contracted value is RON 100,600 of which RON 52,950 had been drawn by 31 December 2007. The repayment will start in March 2008 in quarterly instalments.

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

The maturity of the Unicredit loan is set out bellow:

	Year ending 31 December 2007	Year ending 31 December 2006
Within 1 year	11,148	-
Between 1 and 2 years	11,147	-
Between 2 and 5 years	30,655	-
	52,950	-

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

	Year ending 31 December 2007 (%)	Year ending 31 December 2006 (%)
Long term loans in USD	6.7	6.6
Long term loans in EUR	5.0	4.4

Fair value

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

	Carrying amounts 31 December		Fair values 31 December	
	2007	2006	2007	2006
IBRD	8,732	10,620	8,663	10,466
Gazprom	88,435	126,293	88,771	127,377
Raiffeisen	1,541	3,375	1,505	3,283
ABN	15,977	20,407	16,672	21,679
Efibanca	12,914	17,792	12,709	17,916
Unicredit	52,950	-	49,846	-
	180,549	178,487	178,166	180,721

(Expressed in RON thousand, unless otherwise stated)

15 LONG TERM BORROWINGS (CONTINUED)

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.

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

	31 December 2007	31 December 2006
Variable interest rate	132,528	91,222
Fixed interest rate	48,021	87,265
	180,549	178,487

The variable interest rate can be further analysed as follows:

	31 December 2007	31 December 2006
6 months or less	123,796	100,428

The Company has following undrawn facilities:

	31 December 2007	31 December 2006
RON	59,460	32,111

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 2007	Year ended 31 December 2006
Income tax expense - current	45,324	48,378
Deferred tax release - origination and reversal of temporary differences	(23,759)	(15,861)
Income tax expense / (credit)	21,565	32,517

In 2007 and 2006, 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 2007	Year ended 31 December 2006
Profit before taxation	130,588	194,078
Theoretical tax charge at statutory rate of 16% (2006: 16%)	20,894	31,052
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	(2,220)	(7,435)
Non-deductible expenses	2,891	8,900
Income tax expense /(release)	21,565	32,517

Deferred tax

Deferred tax assets/liabilities are measured at the enacted statutory effective tax rate of 16% as at 31 December 2007 (31 December 2006: 16%).

(Expressed in RON thousand, unless otherwise stated)

17 INCOME TAX (CONTINUED)

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

	31 December 2007	Movement	31 December 2006	Movement	31 December 2005
Deferred tax liabilities					
Restatement of property, plant and equipment	114,928	(22,339)	137,267	(15,758)	153,025
Impairment of property, plant and equipment	(2,928)	-	(2,928)	-	(2,928)
Other taxable temporary differences	-	(1)	1	(74)	75
	112,000	(22,340)	134,340	(15,832)	150,172
Deferred tax assets					
Accruals	963	185	778	82	696
Adjustments to inventories	(11)	(114)	103	(81)	184
Provision for employee benefits	3,180	1,348	1,832	28	1,804
	4,132	1,419	2,713	29	2,684
Net deferred tax liability	107,868	(23,759)	131,627	(15,861)	147,488

(Expressed in RON thousand, unless otherwise stated)

17 INCOME TAX (CONTINUED)

The amounts shown in the balance sheet include the following:

	31 December 2007	31 December 2006
Deferred tax liabilities to be settled after more than 12 months	107,868	125,828

18 TRADE AND OTHER PAYABLES

	31 December 2007	31 December 2006
Trade payables	87,511	79,354
Suppliers of fixed assets	15,062	42,000
Payable to Ministry of Economy and Commerce (additional distribution)	51,718	51,718
Other taxes	45,533	24,498
Employees payable	12,240	10,079
VAT payable	14,858	6,737
Other liabilities	6,535	4,340
	233,457	218,726

As detailed in the Statement of changes in the shareholders' equity, 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. These penalties are in substance an additional distribution to shareholders, therefore the Company's management decided to record and present them as a movement in retained earnings. 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 network.

As at 31 December 2007, RON 540 (31 December 2006: RON 10,052) of trade and other payables are denominated in foreign currency, mainly EUR.

Included in trade payables are balances due to related parties of RON 61,648 (31 December 2006: RON 54,740), 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 2007	31 December 2006
1. BRD overdraft	RON	15,512	2,620
2. ABN AMRO Bank overdraft	RON	28	14,673
Current portion of long term loans (Note 15)		58,503	48,416
		74,043	65,709

BRD overdraft

The BRD overdraft agreement was concluded in 2004 with a RON 20,000 ceiling. It was subsequently extended until 31 August 2008 and its ceiling increased to RON 45,000. The facility is secured with a pledge on receivables from the contract with Electrocentrale Bucuresti SA in amount of RON 30,419 as at 31 December 2007 (31 December 2006: RON 20,444) and cash accounts with BRD in amount of RON 19 as at 31 December 2007 (31 December 2006 RON 458).

Interest rate is BUBOR + 0.45% p.a. The effective interest rate in 2007 was 8% (2006: 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 is BUBOR + 0.5% p.a. The effective interest rate in 2007 was 7% (2006: 8%).

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 2007	31 December 2006
Current provision		
Provision for litigations	1,278	1,278

Legal claims

The amounts represent a provision for certain legal claims brought against the company by Petrom. After taking appropriate legal advice, management estimates that the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2007.

21 PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

Under the collective labour contract, the Company is required pay to 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 historic data provided by the Company 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 were as follows:

a) Discount rate:
   - For 2007 was considered 12% (2006: 10%) based on the yield of the 5 years RON denominated government bond issued in March 2007 and the coupon of the 10 years RON denominated government bond issued in June 2007.
   - For 2008 was considered 11%, being the 3 years RON denominated government bond issued in February 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 5.5% p.a. for the year 2007, 7% p.a. for the year 2008, 6% p.a. for the period 2009-2010, and following a decreasing pattern afterwards.

(Expressed in RON thousand, unless otherwise stated)

21 PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

c) Salary increase rate - according to the information provided by the Company, the salary indexation is related to the productivity increase rate. Analysing the historic rates, the actuary assumed for the year 2008 a salary increase rate at the level of the average salary increase rate over the previous 4 years. For the following years was assumed a salary increase rate of 3% over the consumer price index.

d) The mortality rate during employment was based on the Romanian Mortality Table 2004-2006 issued by the Romanian National Institute of statistics.

Movement in provision for employee benefits

	Provision
1 January 2006	11,278
Unwinding of the discount	24
Increase of provision	150
31 December 2006	11,452
Unwinding of the discount	778
Increase of provision	7,648
31 December 2007	19,878

22 OTHER INCOME

	Year ending 31 December 2007	Year ending 31 December 2006
Reimbursement of interest overpaid to State Budget	147	1,342
Sale of intangibles to SNGN Romgaz	-	18,052
Disposal of investment	-	2,219
Other operating revenues	7,353	7,584
	7,500	29,197

(Expressed in RON thousand, unless otherwise stated)

23 OTHER OPERATING EXPENSES

	Year ending 31 December 2007	Year ending 31 December 2006
Impairment loss of current assets	10,522	10,100
Loss on disposal of fixed assets	31,120	6,446
Sponsorship expenses	3,099	2,479
Utilities	3,887	3,409
Telecom	2,684	2,621
Bank and other commissions	2,013	1,414
Rent	933	769
Insurance premium	584	598
Bad debts written off	143	-
Charges in inventory of finished goods and work in progress	(552)	(165)
Other	3,598	12,612
	58,031	40,283

24 NET FINANCIAL INCOME/ (EXPENSE)

	Year ending 31 December 2007	Year ending 31 December 2006
Foreign exchange gains	7,641	37,076
Foreign exchange losses	(2,791)	(5,463)
Interest income	4,879	1,703
Interest expense	(12,197)	(14,718)
Unwinding of the discount provision for employee benefit	(778)	(24)
Other financial income / (expenses)	60	(777)
	(3,186)	17,797

(Expressed in RON thousand, unless otherwise stated)

25 NET CASH-FLOW FROM OPERATING ACTIVITY

	Year ending 31 December 2007	Year ending 31 December 2006
Profit before taxation	130,588	194,078
Adjustments for:		
Depreciation and amortisation	182,436	165,297
(Profit)/Loss on disposal of fixed assets	30,557	(13,826)
(Release)/Provisions for liabilities and charges	-	(11,691)
Provision for employee benefits	7,648	150
(Release)/Provisions for debtors and inventories	10,522	10,100
Bad debts written off	143	-
Net interest expense	7,318	13,015
Effect of exchange rate changes on non-operating items	(2,456)	32,026
Operating profit before working capital changes	366,756	389,149
(Increase)/decrease in trade and other receivables	(22,983)	(20,225)
Decrease/(increase) in inventories	3,776	2,952
Increase/(decrease) in trade and other payables	(41,584)	(31,396)
Cash generated from operations	305,965	340,305

26 OTHER EMPLOYEE BENEFITS

According to past collective labour agreements, employees were entitled to receive free of charge 4,000 cubic meters of gas a year (or the cash equivalent computed at monthly medium price per cubic meter); starting with October 2006 the amount has been increased to 5000 cubic meters a year and in March 2007 further increased to 6500 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 2007 and 31 December 2006 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 2007	31 December 2006
SNGN Romgaz	Entity under common control	5,461	51,843
Termoelectrica Electrocentrale	Entity under common control	23,709	16,916
Deva SA	Entity under common control	6,629	6,838
Electrocentrale Bucureşti SA	Entity under common control	124,746	93,609
Electrocentrale Galați SA	Entity under common control	19,143	15,219
E.ON Gaz	Entity under common control	203,366	181,638
Distrigaz Sud	Entity under common control	239,471	203,014
Petrom	Entity under common control	38,391	38,719
Grup Dezvoltare Retele SA	Entity under common control	797	-
BAT Mediaş	Entity under the control of key management personnel	2	2
		661,715	607,798

(Expressed in RON thousand, unless otherwise stated)

27 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

ii) Receivables from related parties

	Relationship	31 December 2007	31 December 2006
SNGN Romgaz Termoelectrica	Entity under common control	1	68
(net of provision)	Entity under common control	1,493	15,207
Electrocentrale Deva SA	Entity under common control	380	999
Electrocentrale Bucureşti SA	Entity under common control	30,419	20,516
Electrocentrale Galați SA	Entity under common control	2,435	1,376
E. ON Gaz	Entity under common control	30,281	29,688
Distrigaz Sud	Entity under common control	35,731	46,164
Petrom	Entity under common control	4,186	2,761
Nabucco Company Pipeline Study Gmbh	Investment in associate	-	473
Grup Dezvoltare Rețele SA	Entity under common control	253	-
		105,179	117,252

iii) Acquisitions of gas from related parties

	Relationship	31 December 2007	31 December 2006
SNGN Romgaz	Entity under common control	176,712	142,056

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

	Relationship	31 December 2007	31 December 2006
SNGN Romgaz	Entity under common control	32	-
E. ON Gaz	Entity under common control	887	917
Distrigaz SUD	Entity under common control	370	361
Petrom	Entity under common control	3,964	3,433
Electrocentrale Deva SA	Entity under common control	33	-
Nabucco Company Pipeline Study Gmbh	Investment in associate	274	545
BAT Mediaş	Entity under control of key management personnel	1,083	1,374
		6,643	6,630

(Expressed in RON thousand, unless otherwise stated)

27 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

v) Payables to related parties

	Relationship	31 December 2007	31 December 2006
SNGN Romgaz	Entity under common control	61,162	54,116

vi) Payables to related parties (other services)

	Relationship	31 December 2007	31 December 2006
SNGN Romgaz	Entity under common control	12	-
E.ON Gaz	Entity under common control	130	211
Distrigaz Sud	Entity under common control	78	31
Petrom Electrocentrale	Entity under common control	203	4
Deva SA	Entity under common control	5	-
Nabucco Company Pipeline Study Gmbh	Investment in associate	-	252
BAT Medias	Entity under common control	58	126
		486	624

vii) Key management compensation

	Year ending 31 December 2007	Year ending 31 December 2006
Salaries paid to key management	2,058	1,758

viii) Loan to related party

	Year ending 31 December 2007	Year ending 31 December 2006
Loan to Resial SA	1,783	2,235
less provision for impairment of loan	(1,783)	(2,235)
	-	-

(Expressed in RON thousand, unless otherwise stated)

28 EARNINGS PER SHARE

The Company's shares are listed at 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 2007	Year ending 31 December 2006
Profit/(loss) attributable to equity holders of the Company	109,023	161,561
Weighted average to number of shares	10,504,301	10,382,584
Basic (loss)/earnings per share (RON per share)	10.38	15.56

29 SIGNIFICANT NON-CASH TRANSACTIONS

Mutual cancellations

Approximately 13% of accounts receivable were settled via non-cash transactions during the year ended 31 December 2007 (2006: 24%). 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

The barter transactions during 2007 were of RON 108,975 (2006: RON 120,975). These transactions represent 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 to be 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 and 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. 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 2006, same for 2007). 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 2007 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.

Following legal action taken in 2004 by the Gas Federation of Romania, a trade union, the Company was requested to pay an amount of RON 11,473 through decision no 94/2005 issued by Alba County Court of Law. This amount represents the value of gas that the Company should have distributed to employees based on the Collective Labour Agreement for 2004. The Company disagreed with this decision and filed an appeal to the Appeal Court, which was rejected in 2005. A provision of RON 11,473 was recorded in the Company accounts as at 31 December 2004. This provision was reversed during 2006 after the Company paid the amount requested by the union.

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

(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.

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 2008 the Company declared dividends in amount of RON 113,735 RON for 2007 (a dividend of RON 9.66 per share).