

**TRANSGAZ SA**

**CONDENSED INTERIM FINANCIAL  
STATEMENTS FOR THE SIX MONTHS ENDED  
30 JUNE 2007**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING  
STANDARDS**

TRANSGAZ SA

FINANCIAL STATEMENTS

30 JUNE 2007

---

CONTENTS	PAGE
General Information	
Report of the Independent Auditors	-
Condensed balance sheet	1
Condensed income statement	2
Condensed statement of changes in shareholders' equity	3
Condensed statement of cash flows	4
Notes to the condensed financial statements	5 - 35

## DESCRIPTION OF THE BUSINESS

The National Company for Transportation of Natural Gas – SNTGN Transgaz SA (“the Company”) is a company involved in the transportation and sale of natural gas.

### *Establishment of the Company; reorganisation of the Romanian gas sector*

In accordance with Government Decision No 334 published on 4 May 2000, the gas sector in Romania was reorganized. The shares held by the former 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 Mediaș 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 Mediaș and Depogaz SA Ploiești.

### *Information on the natural gas sector*

The gas sector is regulated by the National Agency for Regulation of the Natural Gas Sector (“Agenția Națională pentru Reglementare în Domeniul Gazelor Naturale” - ANRGN) which was incorporated through the Government Ordinances 60/2000 and 41/2000. The main responsibilities of ANRGN 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.

## DESCRIPTION OF THE BUSINESS (CONTINUED)

In view of the EU accession agreements concluded by Romania, ANRGN coordinated an internal gas market liberalization process which was completed in 2007. The completion of the liberalization process is not expected to have a significant impact on the Transgaz's operations and profitability because the Company is already providing gas transportation to all the significant consumers in the market and barriers to entry in the gas transportation market are very high.

Starting in May 2007, ANRGN became part of the National Agency for Regulation of the Energy Sector which regulates both gas and electrical power sector.

### *Ownership*

Prior to 2005, the Ministry of Economy and Commerce was the sole shareholder of the Company. During 2005, based on Law 247/2005 the Ministry contributed 15% of the shares of the Company to the establishment of "Proprietatea" Fund. The Fund was set up with assets (primarily securities in large state-owned enterprises) contributed by the Romanian State; shares in the Fund will be provided to individuals dispossessed by the State in the Communist period, in lieu of in-kind compensation.

The Company is in course of an initial public listing process which is planned to be completed by the end of 2007 and following which the Company will be listed on the Bucharest Stock Exchange. During the initial public listing, the Company will issue new shares representing 10% of its share capital.

### *Statutory information of the Company*

The registered office of the Company is I.C. Motas Square Nr 1, Medias, Romania.

### *Employees*

The average number of employees for the six months periods ended 30 June 2007 and 30 June 2006 was 4,876, and 4,813 respectively.

### *Nature of operations*

Transgaz SA is involved in the following activities:

- transportation and dispatch of natural gas, which is the core activity of the Company;
- maintenance and operation of the national gas transportation system;
- import and re-sale of natural gas;
- international transit of natural gas;
- research and design in the field of equipment for the natural gas industry.

GENERAL INFORMATION

---

## DESCRIPTION OF THE BUSINESS (CONTINUED)

*Management structure*

The persons who served office during the period presented were the following:

<u>Position</u>	<u>Name</u>	<u>Period</u>
General Manager	Muntean Florin	1 January 2006 – 21 May 2007
General Manager	Ioan Rusu	21 May 2007 – 30 June 2007
Economic Deputy General Manager	Goage Laurentia	1 January 2006 – 31 October 2006
Technical Deputy General Manager	Pintican Juga L Traian	1 January 2006 – 30 June 2007
Technical Deputy General Manager	Pavlovski Vlad	5 March 2007 – 30 June 2007
Finance and Budgeting Director	Marin Dumitru	1 January 2006 – 30 June 2007

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the shareholders of Transgaz SA

### *Introduction*

- 1 We have reviewed the accompanying condensed balance sheet of Transgaz SA as of 30 June 2007, and the related condensed statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with International Accounting Standard 34. Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of the review*

- 2 We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Basis for Qualified Conclusion*

- 3 Due to the lack of reviewed financial information prepared in accordance with International Financial Reporting Standards for a company controlled by Transgaz SA, the respective investment is recorded at cost less impairment. This practice is not in accordance with the requirements of IAS 27 "Consolidated and Separate Financial Statements", which requires that investments in subsidiaries should be consolidated.

### *Qualified Conclusion*

- 4 Based on our review, except for the possible effects of the matter presented in paragraph 3, nothing has come to our attention that causes us to believe that the accompanying condensed

interim financial information as of and for the six-month period ended 30 June 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

*Other Matters*

- 5 This report, including the conclusion, has been prepared for and only for the Company's shareholders as a body and for no other purpose. To the fullest extent permitted by law, we do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come.

  
PricewaterhouseCoopers Audit SRL

Bucharest, 31 August 2007

TRANSGAZ SA

CONDENSED BALANCE SHEET

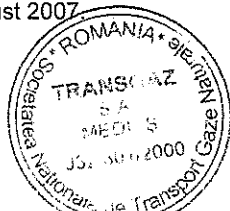
30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

	<u>Note</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		9,713	11,131
Property, plant and equipment	5	2,632,011	2,619,675
Available for sale financial assets		<u>3</u>	<u>3</u>
		2,641,727	2,630,809
<b>Current assets</b>			
Inventories	7	34,253	36,204
Trade and other receivables	8	85,688	161,433
Cash and cash equivalents	9	<u>81,064</u>	<u>79,259</u>
		201,005	276,896
<b>Total assets</b>		<u><b>2,842,732</b></u>	<u><b>2,907,705</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	10	545,307	545,249
Public property reserve		1,265,797	1,265,797
Retained earnings		<u>451,472</u>	<u>471,793</u>
		2,262,576	2,282,839
<b>Non-current liabilities</b>			
Long term borrowings	11	96,276	130,071
Provision for employees' benefits	16	13,125	11,452
Deferred income	12	64,015	49,144
Deferred tax liability	13	<u>126,283</u>	<u>131,627</u>
		299,699	322,294
<b>Current liabilities</b>			
Trade and other payables	14	179,850	218,726
Current income tax liabilities		7,173	16,859
Short term borrowings	15	92,156	65,709
Provision for liabilities and charges		<u>1,278</u>	<u>1,278</u>
		280,457	302,572
<b>Total liabilities</b>		<u><b>580,156</b></u>	<u><b>624,866</b></u>
<b>Total equity and liabilities</b>		<u><b>2,842,732</b></u>	<u><b>2,907,705</b></u>

These condensed interim financial statements have been approved for issue by the Board of Directors on 30 August 2007.

Ioan Rusu  
General Manager



Dumitru Marin  
Finance and Budgeting Director

The accompanying notes 1 to 27 are an integral part of these financial statements.

TRANSGAZ SA

CONDENSED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007  
(Expressed in RON thousand, unless otherwise stated)

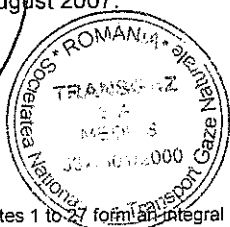
	Note	Six months ended 30 June 2007	Six months ended 30 June 2006
Revenue	17	492,562	410,750
Other income	18	<u>3,432</u>	<u>2,877</u>
		495,994	413,627
Cost of gas sold		(55,742)	(11,476)
Gas, materials and consumables used		(71,635)	(114,634)
Depreciation and amortisation	5	(79,188)	(84,333)
Wages and salaries		(77,573)	(64,007)
Maintenance and transportation		(33,967)	(15,914)
Other employee benefits	22	(21,137)	(24,217)
Royalty expense		(21,813)	(20,584)
Third party services		(6,443)	(5,304)
Taxes and other state dues		(5,792)	(4,689)
Release of provision for liabilities and charges		-	11,690
Provision for employee benefits	16	(1,651)	(65)
Other operating expenses	19	<u>(10,828)</u>	<u>146</u>
<b>Operating profit</b>		110,225	80,240
Financial income	20	17,097	21,699
Financial expense	20	<u>(6,430)</u>	<u>(11,870)</u>
<b>Profit before taxation</b>		120,892	90,069
Taxation	13	<u>(19,828)</u>	<u>(13,208)</u>
<b>Net profit for the period</b>		<u>101,064</u>	<u>76,861</u>

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

Basic and diluted	25	9.73	7.40
Dividend distribution (RON/share)	10	11.69	7.26

These condensed interim financial statements have been approved for issue by the Board of Directors on 30 August 2007.

Ioan Rusu  
General Manager



Dumitru Marin  
Finance and Budgeting Director

The accompanying notes 1 to 27 form an integral part of these financial statements.

## CONDENSED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

	<u>Note</u>	<u>Share capital</u>	<u>Public property reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>Balance at 1 January 2006</b>		545,222	1,265,797	387,855	2,198,874
Share capital increase	10	27	-	-	27
Profit for the 6 months period ended 30 June 2006		-	-	76,861	76,861
Dividends		-	-	(71,389)	(71,389)
Additional distribution decided by principal shareholder <sup>1)</sup>		-	-	(6,234)	(6,234)
<b>Balance at 30 June 2006</b>		<u>545,249</u>	<u>1,265,797</u>	<u>387,093</u>	<u>2,198,139</u>
Profit for the 6 months period ended 31 December 2006		-	-	84,700	84,700
<b>Balance at 31 December 2006</b>		<u>545,249</u>	<u>1,265,797</u>	<u>471,793</u>	<u>2,282,839</u>
Share capital increase	10	58	-	-	58
Profit for the six months period ended 30 June 2007		-	-	101,064	101,064
Dividends		-	-	(121,385)	(121,385)
<b>Balance at 30 June 2007</b>		<u>545,307</u>	<u>1,265,797</u>	<u>451,472</u>	<u>2,262,576</u>

Share capital includes an adjustment for inflation. This is shown separately in Note 10 together with the movements in the statutory value of share capital.

<sup>1)</sup> The Ministry of Economy and Commerce has decided to require the Company an additional distribution in relation to the dividends declared and unpaid during the period 2000 - 2003, when the Ministry was sole shareholder of the Company. Management had initially decided to retain the respective profit in the Company for re-investment 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 14).

TRANSGAZ SA

CONDENSED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

(Expressed in RON thousand, unless otherwise stated)

	<u>Note</u>	<u>Six months ended</u> <u>30 June 2007</u>	<u>Six months ended</u> <u>30 June 2006</u>
<b>Cash generated from operations</b>	21	204,813	96,292
Interest paid, net		(3,442)	(5,840)
Income taxes paid		<u>(34,858)</u>	<u>(21,483)</u>
<b>Net cash inflow from operating activity</b>		166,513	68,969
<b>Cash flow from investment activities</b>			
Payments to acquire property, plant and equipment		(70,917)	(58,191)
Sale of internally generated intangible asset		-	18,052
Sale of financial investments		<u>-</u>	<u>693</u>
<b>Net cash used in investment activities</b>		(70,917)	(39,446)
<b>Cash flow from financing activities</b>			
Dividends paid		(103,192)	(11,139)
Repayments of long term borrowings		<u>(21,201)</u>	<u>(33,596)</u>
<b>Net cash used in financing activities</b>		(124,393)	(44,735)
<b>Net change in cash and cash equivalents</b>		(28,797)	(15,212)
Cash and cash equivalents at the beginning of the year	9	<u>60,940</u>	<u>29,970</u>
<b>Cash and cash equivalents at the end of the year</b>	9	<u>32,143</u>	<u>14,758</u>

The accompanying notes 1 to 27 form an integral part of these financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

**1 REPORTING ENTITY**

These condensed financial statements are presented by TRANSGAZ SA (the "Company").

**2 BASIS OF PRESENTATION OF THE CONDENSED FINANCIAL STATEMENTS**

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They are not the statutory accounts of the Company.

These condensed interim financial statements for the half year ended 30 June 2007 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

The Company maintains its accounting records in RON and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of Romania. These IFRS financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The financial statements have been prepared using the historical cost convention, except as disclosed in the applicable accounting policies.

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

**3 ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial interim period ending 30 June 2007.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

3 ACCOUNTING POLICIES (CONTINUED)

*Standards that became effective during the period*

The following standards and interpretations to existing standards have become effective during the period:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures introduces new disclosures relating to financial instruments. The standard is effective for annual periods beginning on or after 1 January 2007. This standard does not have any impact on the classification and valuation of the Company's financial instruments. The Company will provide all the required information in the annual financial statements as at 31 December 2007;
- IFRIC 11, Group and Treasury Share Transactions, clarifies the accounting treatment for:
  - i) share-based payment transactions in which an entity receives services as consideration for its own equity instruments;
  - ii) transactions where a parent grants rights to its equity instruments to the employees of its subsidiary; transactions where a subsidiary grants rights to equity instruments of its parent to its employees. The standard is effective for annual periods beginning on or after 1 March 2007. The interpretation does not have any impact on the Company's accounts.

*Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

The following standards and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 May 2006 or later periods that the Company has not early adopted:

- IFRS 8, Operating Segments, sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The standard is effective for annual periods beginning on or after 1 January 2009. The Company management has decided not to early adopt this standard and is still analysing its potential impact;
- IFRIC 12, Service Concession Arrangements, gives guidance on the accounting by operators for public-to-private service concession arrangements. The interpretation is effective for annual periods beginning on or after 1 January 2008, and will not be early adopted by the Company. IFRIC 12 applies to certain property, plant and equipment which is part of the national gas transportation system. The respective assets were constructed by the Company after it concluded a concession agreement to operate the national gas transportation pipeline system. Management estimates that the adoption of IFRIC 12 would impact:

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

3 ACCOUNTING POLICIES (CONTINUED)

- i) property, plant and equipment with a net book value of RON 119,400, which will be re-classified as intangible assets, their carrying value will be re-assessed and their amortisation period will be adjusted to the lower of their useful lives (3 to 24 years) and the remaining period of the concession agreement (25 years from 2008);
- ii) revenue and cost recognised in each period presented in FS;
- iii) recognition of the provision resulting from the contractual obligation to restore or maintain infrastructure.

The management is currently assessing the full impact of the adoption of IFRIC 12 on the Company's financial statements.

- IFRIC 13, Customer Loyalty Programmes, addresses the accounting treatment for customer loyalty award credits that:

- i) an entity grants to its customers as part of a sales transaction, i.e. a sale of goods, rendering of services or use by a customer of entity assets; and
- ii) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

This interpretation is applicable for annual periods beginning on or after 1 July 2008. The management considers that its adoption is not expected to have any impact on the Company's financial statements.

- IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, applies to all post-employment defined benefits and other long-term employee defined benefits. The interpretation makes clarifications about the availability of refunds or reductions in future contributions.

The interpretation is effective for annual periods beginning on or after 1 January 2008. The Company management has decided not to early adopt this standard and is still analysing its potential impact;

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

**3 ACCOUNTING POLICIES (CONTINUED)**

**Foreign currency transactions**

*Transactions and balances*

Monetary assets and liabilities are translated into Company's functional currency at the official exchange rate of the National Bank of Romania ("NBR") at the respective balance sheet date. Foreign currency transactions are recorded by applying to the foreign currency amount the spot exchange rate between the functional currency of the Company and the foreign currency at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Company's functional currency at year-end official exchange rates of the NBR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 30 June 2007, the exchange rate communicated by the National Bank of Romania, was US Dollar ("USD") 1 = RON 2.3246 (31 December 2006: USD 1 = RON 2.5676 and 30 June 2006: USD 1 = RON 2.8068) and Euro ("EUR") 1 = RON 3.1340 (31 December 2006: EUR 1 = RON 3.3817 and 30 June 2006: EUR 1 = RON 3.5686). Exchange restrictions and currency controls exist relating to converting RON into other currencies. The RON is not a convertible currency outside of Romania.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the following financial periods. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**4.1 Tax legislation**

Romanian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27 (ii).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

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

4.2 Related party transactions

In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

4.3 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 approval by the shareholders
- the application of new standards and interpretations (e.g. IFRIC 12).

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 reflect accurately the pattern in which the future economic benefits are expected to be consumed by the Company.

4.4 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 of 7.5% based on the risk free interest rate (i.e. interest rate on government bonds).

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

If the estimated pre-tax discount rate applied to the discounted cash flows had been 1% higher than management's estimates, the Company would have recognized in its balance sheet for the six months period ended 30 June 2007 a provision for employee benefits 5% lower than the current one. The Company does not operate any other pension scheme or post retirement benefit plan and, consequently, has no obligation in respect of pensions.

**4.5 Impairment of receivables**

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. The accounting policy of the Company is to specifically provide for all balances older than 365 days, as the historical loss experience indicate that such balances are not recoverable. For the remaining balance of accounts receivables, the entity first assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment. For the accounts receivable assessed collectively, 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.

**4.6 Accounting treatment for concession agreement**

As further described in note 6, 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.

The management of the Company decided not to early adopt IFRIC 12, "Service Concession Arrangements", interpretation effective for annual periods beginning on or after 1 January 2008.

The management is still assessing the impact of the adoption of IFRIC 12 on the Company's financial statements; its current estimate is described in Note 3.

TRANSGAZ SA

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

5 PROPERTY, PLANT AND EQUIPMENT

	<u>Land and buildings</u>	<u>Transportation system assets</u>	<u>Other fixed assets</u>	<u>Assets in course of construction</u>	<u>Total</u>
<b>Six months ended 30 June 2006</b>					
Opening net book value					
at 1 January 2006	297,738	2,117,333	78,999	108,415	2,602,485
Additions	-	-	-	83,259	83,259
Transfers from AICC	79,315	-	3,507	(82,822)	-
Net book value of disposals	(621)	(178)	(162)	-	(961)
Depreciation charge	<u>(8,078)</u>	<u>(63,910)</u>	<u>(10,285)</u>	-	<u>(82,273)</u>
Closing net book value					
at 30 June 2006	<u>368,354</u>	<u>2,053,245</u>	<u>72,059</u>	<u>108,852</u>	<u>2,602,510</u>
<b>Six months ended 30 June 2007</b>					
Opening net book value					
at 1 January 2007	286,913	2,143,618	69,556	119,588	2,619,675
Additions	-	-	-	91,981	91,981
Transfers from AICC	76,373	-	2,448	(78,821)	-
Net book value of disposals	(2,956)	(442)	(60)	-	(3,458)
Depreciation charge	<u>(7,298)</u>	<u>(62,425)</u>	<u>(6,464)</u>	-	<u>(76,187)</u>
Closing net book value					
at 30 June 2007	<u>353,032</u>	<u>2,080,751</u>	<u>65,480</u>	<u>132,748</u>	<u>2,632,011</u>

The gross book value of fully depreciated assets still in use at 30 June 2007 is RON 1,544,360 (31 December 2006: RON 1,544,832).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

*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	<u>Six months ended</u> <u>30 June 2007</u>	<u>Six months ended</u> <u>30 June 2006</u>
1 January	2,686,874	2,686,874
Disposals	<u>-</u>	<u>-</u>
30 June	2,686,874	2,686,874
<b>Depreciation</b>		
1 January	2,145,424	2,089,017
Charge for the year	51,052	28,483
Disposals	<u>-</u>	<u>-</u>
30 June	<u>2,196,476</u>	<u>2,117,500</u>
<b>Net book value</b>	<u>490,398</u>	<u>569,374</u>

As detailed in Note 6, these assets are operated 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 systems 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 6 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 brought 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 ANRM 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 described in more detail in the Company's financial statements for 2006.

The Concession Agreement does not include an extension clause.

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

## 7 INVENTORIES

	<u>30 June 2007</u>	<u>31 December 2006</u>
Spare parts and materials	35,601	38,245
Provisions for slow moving inventories	<u>(1,348)</u>	<u>(2,041)</u>
	<u>34,253</u>	<u>36,204</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

8 TRADE AND OTHER RECEIVABLES

	<u>30 June 2007</u>	<u>31 December 2006</u>
Trade receivables	178,253	254,776
Advances from suppliers	111	14
VAT recoverable	-	392
Loan to Resial SA	2,196	2,235
Other receivables	3,636	3,375
Provision for impairment of trade receivables	(96,312)	(97,124)
Provision for impairment of loan to Resial SA	<u>(2,196)</u>	<u>(2,235)</u>
	<u>85,688</u>	<u>161,433</u>

As at 30 June 2007, RON 15,802 (31 December 2006: RON 17,651) of trade and other receivables are denominated in foreign currency, 79% in USD (31 December 2006: 77%) and 21% in EUR (31 December 2006: 23%).

Included in trade receivables are balances from related parties of RON 15,563 (31 December 2006: RON 38,166), as presented in Note 23.

Trade receivables have been pledged in favour of banks as collateral for bank loans as described in Note 11. The total amount of pledged receivables as at 30 June 2007 is RON 28,540 (31 December 2006: RON 78,318).

9 CASH AND CASH EQUIVALENTS

	<u>30 June 2007</u>	<u>31 December 2006</u>
Cash at bank in RON	31,084	68,501
Cash at bank in foreign currency	1,491	684
Bank deposits	48,159	9,837
Other cash equivalents	<u>330</u>	<u>237</u>
	<u>81,064</u>	<u>79,259</u>

As at 30 June 2007 cash at bank includes RON 929 (31 December 2006: RON 1,027 and 30 June 2006: RON 1,123) in escrow accounts in foreign currencies.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 9 CASH AND CASH EQUIVALENTS (CONTINUED)

The weighted average effective interest rate on short term bank deposits was 6.72% at 30 June 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:

	<u>30 June 2007</u>	<u>30 June 2006</u>
Cash and cash equivalents	81,064	55,729
Less: Escrow accounts	(929)	(1,123)
Less: Bank overdrafts (Note 15)	(47,992)	(39,848)
	<u>32,143</u>	<u>14,758</u>

## 10 SHARE CAPITAL

	<u>Number of ordinary shares</u>	<u>Share capital</u>
<b>Statutory</b>		
At 31 December 2005	10,380,320	103,803
Increase	<u>2,717</u>	<u>27</u>
At 30 June 2006	10,383,037	103,830
At 31 December 2006	10,383,037	103,830
Increase	<u>5,851</u>	<u>58</u>
At 30 June 2007	10,388,888	103,888
<b>IFRS</b>		
Hyperinflation adjustment to share capital cumulative to 31 December 2003		441,419
At 30 June 2006		<u>545,249</u>
At 30 June 2007		<u>545,307</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 10 SHARE CAPITAL (CONTINUED)

The authorised number of ordinary shares in Transgaz SA is 10,388,888 (30 June 2006: 10,383,037) with a nominal value of RON 10 each. Each share carries one vote. The shareholders structure at 30 June 2007 is presented below:

	<u>Number of ordinary shares</u>	<u>Amount</u> (RON thousand)	<u>Percentage</u> (%)
Romanian State, represented by			
Ministry of Economy and Commerce („MEC”)	8,831,840	88,319	85,012%
Fondul „Proprietatea”	<u>1,557,048</u>	<u>15,570</u>	<u>14,988%</u>
	<u>10,388,888</u>	<u>103,889</u>	<u>100,00%</u>

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 in 2006 and 2007 relates to land which has been contributed to share capital by the Ministry of Economy and Commerce.

***Dividends distribution***

During the six months ended on 30 June 2007, the Company has declared and distributed a dividend per share of RON 11.69 relating to prior year profit (2006: RON 7.26 per share, relating to 2005 profit).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

11 LONG TERM BORROWINGS

	<u>Currency</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
IBRD loan	USD	8,951	10,620
Gazprombank loans	USD	99,015	126,293
Raiffeisen Bank loan	EUR	2,233	3,375
Efibanca loan	EUR	13,850	17,792
ABN Amro Bank loan	EUR	16,391	20,407
Less: current portion of loans		<u>(44,164)</u>	<u>(48,416)</u>
		<u>96,276</u>	<u>130,071</u>

There were no changes in contractual terms (interest rate, maturity date, reimbursement schedule, guarantees, etc.) during the six months period ended 30 June 2007.

The maturity of the long term loans is set out bellow.

	<u>30 June 2007</u>	<u>31 December 2006</u>
Within 1 year	44,164	48,416
Between 1 and 2 years	42,719	48,040
Between 2 and 5 years	52,753	80,086
Over 5 years	<u>804</u>	<u>1,945</u>
	<u>140,440</u>	<u>178,487</u>

**Effective interest rate**

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

	<u>Six months ending 30 June 2007</u>	<u>Six months ending 30 June 2006</u>
Long term loans in USD	6.7%	6.5%
Long term loans in EUR	5.2%	4.8%

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 11 LONG TERM BORROWINGS (CONTINUED)

## Fair value

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

	Carrying amounts		Fair values	
	<u>30 June 2007</u>	<u>31 December 2006</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
IBRD	8,951	10,620	7,769	10,466
Gazprom	99,015	126,293	67,411	127,377
Raiffeisen	2,233	3,375	2,153	3,283
ABN	13,850	20,407	12,968	21,679
Efibanca	<u>16,391</u>	<u>17,792</u>	<u>15,054</u>	<u>17,916</u>
	<u>140,440</u>	<u>178,487</u>	<u>105,355</u>	<u>180,721</u>

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.

## 12 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 13 TAXATION

## Income tax expense / (release)

	<u>Six months ended 30 June 2007</u>	<u>Six months ended 31 December 2006</u>
Income tax expense - current	25,172	19,703
Deferred tax release - origination and reversal of temporary differences	<u>(5.344)</u>	<u>(6.495)</u>
Income tax expense	<u>19.828</u>	<u>13.208</u>

In 2007 and 2006, the Company accrued income taxes at the rate of 16% computed in accordance with the Romanian tax legislation. Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Profit before taxation	120,892	90,069
Theoretical tax charge at statutory rate of 16%	19,343	14,411
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	(1,622)	(7,319)
Non-deductible expenses	<u>2,107</u>	<u>6,116</u>
Income tax expense / (release)	<u>19.828</u>	<u>13.208</u>

## Deferred tax

Deferred tax assets and liabilities are measured at the effective tax rate of 16% as at 30 June 2007, 31 December 2006 and 30 June 2006. The movement on the deferred income tax account is as follows:

	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Net deferred tax liability at the beginning of the period (1 January)	131,627	147,488
Release for the period	<u>(5.344)</u>	<u>(6.495)</u>
Net deferred tax liability at the end of the period (30 June)	<u>126.283</u>	<u>140.993</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 13 TAXATION (CONTINUED)

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

	<u>30 June 2007</u>	<u>Movement</u>	<u>31 December 2006</u>
<b>Deferred tax liabilities</b>			
Restatement of property, plant and equipment	126,729	(7,610)	134,339
Foreign exchange differences	2,260	2,260	-
Other taxable temporary differences	<u>1</u>	<u>-</u>	<u>1</u>
	128,990	(5,350)	134,340
<b>Deferred tax assets</b>			
Accruals	490	(288)	778
Adjustments to inventories	9	(94)	103
Foreign exchange differences	65	65	-
Provision for employee benefits	2,100	268	1,832
Other deductible temporary differences	<u>43</u>	<u>43</u>	<u>-</u>
	2,707	(6)	2,713
Net deferred tax liability	<u>126,283</u>	<u>(5,344)</u>	<u>131,627</u>

The amounts shown in the balance sheet include the following:

	<u>30 June 2007</u>	<u>31 December 2006</u>
Deferred tax liabilities to be settled after more than 12 months	<u>120,380</u>	<u>125,828</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 14 TRADE AND OTHER PAYABLES

	<u>30 June 2007</u>	<u>31 December 2006</u>
Trade payables	38,173	79,354
Suppliers of fixed assets	33,867	42,000
Payable to Ministry of Economy and Commerce (additional distribution)	51,718	51,718
Other taxes	19,155	24,498
Employees payable	7,511	10,079
Dividends	16,373	-
VAT payable	7,681	6,737
Other liabilities	<u>5,372</u>	<u>4,340</u>
	<u>179,850</u>	<u>218,726</u>

In 2005 the Ministry of Economy and Commerce 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 will be deferred until further notice, allowing the Company use of the respective amount for continuing to develop the gas pipeline network.

As at 30 June 2007, RON 9,162 (31 December 2006: RON 10,052) of trade and other payables are denominated in foreign currency, mainly USD.

Included in trade payables are balances due to related parties of RON 19,669 (31 December 2006: RON 54,242), as presented in Note 23.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 15 SHORT TERM BORROWINGS

Short-term borrowings are analyzed as follows:

	<u>Currency</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
1. BRD overdraft	RON	17,068	2,620
2. ABN AMRO Bank overdraft	RON	30,924	14,673
Current portion of long term loans (Note 11)		<u>44,164</u>	<u>48,416</u>
		<u>92,156</u>	<u>65,709</u>

*1. BRD overdraft*

BRD overdraft agreement was concluded in 2004 with a RON 20,000 ceiling. The ceiling was increased in May 2007 to RON 45,000. The term was extended until 31 August 2007. The facility had a ceiling of RON 30,000 at 30 June 2007 and was secured with a pledge on receivables from the contract with Electrocentrale Bucuresti SA in amount of RON 3,496 as at 30 June 2007 (31 December 2006: RON 20,444) and on cash accounts with BRD in amount of RON 461 as at 30 June 2007 (31 December 2006: RON 458).

Interest rate is BUBOR + 0.5% p.a. The effective interest rate in the six months ended 30 June 2007 was 7.2% (30 June 2006: 5.7%).

*2. ABN AMRO Bank overdraft*

ABN AMRO Bank overdraft agreement was concluded in 2004 with a RON 20,000 ceiling. The ceiling was increased in Mai 2007 to RON 30,000. The term was extended until 30 May 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 the six months ended 30 June 2007 was 5.4% (30 June 2006: 5.6%).

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

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 16 PROVISION FOR EMPLOYEE BENEFITS

	<u>30 June 2007</u>	<u>31 December 2006</u>
<i>Non-current provision</i>		
Provision for employee benefits	<u>13.125</u>	<u>11.452</u>

**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. This provision in respect of these liabilities has been computed based on the following estimations: an average salary of RON 1,660 as at 30 June 2007 (2006: RON 1,740), an average number of 4 salaries to be paid at the time of the retirement and a negligible staff turnover. 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) and the time remaining to retirement.

**Movement in provision for employee benefits**

	<u>Provision</u>
31 December 2005	11,278
Unwinding of the discount	22
Provision release	(251)
Increase of provision	<u>316</u>
30 June 2006	11,365
31 December 2006	11,452
Unwinding of the discount	22
Provision release	(254)
Increase of provision	<u>1.905</u>
30 June 2007	<u>13.125</u>

TRANSGAZ SA

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

17 REVENUE

	<u>Six months ended</u> <u>30 June 2007</u>	<u>Six months ended</u> <u>30 June 2006</u>
Revenue from domestic gas transportation services	339,641	290,107
Revenue from international gas transit services	96,623	108,797
Revenue from sale of gas	56,118	11,538
Revenue from other services	<u>180</u>	<u>308</u>
	<u>492,562</u>	<u>410,750</u>

Revenues from international gas transportation services are generated in Romania and result from services provided to international customers for transit of gas from the Russian Federation to the Balkan region.

18 OTHER INCOME

	<u>Six months ended</u> <u>30 June 2007</u>	<u>Six months ended</u> <u>30 June 2006</u>
Reimbursement of interest overpaid to State Budget	104	644
Other operating revenues	<u>3,328</u>	<u>2,233</u>
	<u>3,432</u>	<u>2,877</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 19 OTHER OPERATING EXPENSES

	Six months ended <u>30 June 2007</u>	Six months ended <u>30 June 2006</u>
Impairment provision for trade receivables	5,227	6,938
Release of provision for trade receivables	(6,039)	-
Inventory provision release	(693)	(1,154)
Loss / (Gain) on disposal of non-current assets	3,873	(16,531)
Penalties	1,465	4,479
Utilities	1,936	1,801
Telecom	1,133	1,169
Bank and other commissions	637	589
Rent	368	363
Insurance premium	343	288
Charges in inventory of finished goods and work in progress	(1,055)	(1,702)
Other	<u>3,633</u>	<u>3,614</u>
	<u>10,828</u>	<u>(146)</u>

## 20 NET FINANCIAL INCOME/ (EXPENSE)

	Six months ended <u>30 June 2007</u>	Six months ended <u>30 June 2006</u>
Foreign exchange gains	14,854	20,871
Foreign exchange losses	(833)	(4,951)
Interest income	2,243	828
Interest expense	(5,575)	(6,897)
Unwinding of the discount related to the provision for employees' benefits	<u>(22)</u>	<u>(22)</u>
	<u>10,667</u>	<u>9,829</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 21 NET CASH-FLOW FROM OPERATING ACTIVITY

	Six months ended <u>30 June 2007</u>	Six months ended <u>30 June 2006</u>
Profit before taxation	120,892	90,069
<i>Adjustments for:</i>		
Depreciation and amortisation	79,188	84,333
(Profit) / Loss on disposal of fixed assets	3,873	1,521
Gain from sale of internally generated intangible asset	-	(18,502)
(Release) for liabilities and charges	-	(11,690)
Provision for employee benefits	1,651	65
(Release) / Provisions for debtors and inventories	(1,505)	5,784
Net interest expense	3,332	6,069
Effect of exchange rate changes on non-operating items	<u>13,853</u>	<u>18,676</u>
Operating profit before working capital changes	221,284	176,775
(Increase) / decrease in trade and other receivables	76,685	16,101
Decrease / (increase) in inventories	2,605	(5,445)
Increase / (decrease) in trade and other payables	<u>(95,761)</u>	<u>(91,139)</u>
Cash generated from operations	<u>204,813</u>	<u>96,292</u>

## 22 OTHER EMPLOYEE BENEFITS

According to the collective labour agreement, employees were entitled to 4,000 cubic meters of gas a year in 2005 and 2006; starting with October 2006, the amount has been increased to 5,000 cubic meters a year as benefit in kind or the equivalent cash amount computed at monthly medium price per cubic meter. In March 2007, the benefit was set at 6,500 cubic meters a year.

The expense has increased primarily due to the increase in the price of natural gas but also due to the increase in employee numbers.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 23 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; the related parties presented below are majority owned by the Romanian State and thus presented as entities under common control.

During the six months periods ended 30 June 2007 and 31 December 2006 the following transactions were carried out with related parties (entities majority owned by the Romanian State) and the following balances were payable/receivable at 30 June 2007 and 31 December 2006:

## i) Revenues from related parties – services and gas sold

	<u>Relationship</u>	<u>Six months ended</u> <u>30 June 2007</u>	<u>Six months ended</u> <u>30 June 2006</u>
SNGN Romgaz	Entity under common control	2,620	44,778
Termoelectrica Electrocentrale	Entity under common control	11,028	2,672
Deva SA	Entity under common control	2,645	2,728
Electrocentrale Bucureşti SA	Entity under common control	50,748	31,582
Electrocentrale Gaiati SA	Entity under common control	7,381	5,646
BAT Mediaş	Entity under the control of key management personnel	1	1
Grup Dezvoltare Reţele SA	Entity under common control	<u>309</u>	<u>-</u>
		<u>74.732</u>	<u>87.407</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 23 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

## ii) Receivables from related parties

	<u>Relationship</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
SNGN Romgaz	Entity under common control	7	68
Termoelectrica (net of provision)	Entity under common control	11,208	15,207
Electrocentrale Deva SA	Entity under common control	279	999
Electrocentrale Bucureşti SA	Entity under common control	3,496	20,516
Electrocentrale Gaiăţi SA	Entity under common control	564	1,376
Grup Dezvoltare Reţele SA	Entity under common control	<u>9</u>	<u>-</u>
		<u>15.563</u>	<u>38.166</u>

## iii) Acquisitions of services from related parties (gas storage)

	<u>Relationship</u>	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
SNGN Romgaz	Entity under common control	<u>68.191</u>	<u>-</u>

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

	<u>Relationship</u>	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
BAT Mediaş	Entity under control of key management personnel	<u>327</u>	<u>13</u>

## v) Payables to related parties (gas storage)

	<u>Relationship</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
SNGN Romgaz	Entity under common control	<u>19.624</u>	<u>54.116</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

23 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

vi) Payables to related parties (other services)

	<u>Relationship</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
BAT Mediaş	Entity under control of key management personnel	<u>45</u>	<u>126</u>

vii) Key management compensation

	<u>Six months ended</u> <u>30 June 2007</u>	<u>Six months ended</u> <u>30 June 2006</u>
Salaries paid to key management	<u>718</u>	<u>592</u>

viii) Loan to related party

	<u>30 June 2007</u>	<u>31 December 2006</u>
Loan to Resial SA	2,196	2,235
less provision for impairment of loan	<u>(2,196)</u>	<u>(2,235)</u>
	<u>-</u>	<u>-</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 24 SEGMENT INFORMATION

The Company has three business operating segments which have different risks and benefits: international gas transit, domestic gas transportation and gas supply.

For the six months ended 30 June 2007

	<u>Domestic gas transportation</u>	<u>International gas transit</u>	<u>Gas supply</u>	<u>Unallocated</u>	<u>Total</u>
External sales	339,641	96,623	56,118	180	492,562
Other unallocated income	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,432</u>	<u>3,432</u>
Total revenue	339,641	96,623	56,118	3,612	495,994
Depreciation	57,687	19,854	-	1,647	79,188
Operating expenses other than depreciation	<u>232,893</u>	<u>10,703</u>	<u>55,742</u>	<u>7,243</u>	<u>306,581</u>
Operating result	49,061	66,065	377	(5,278)	110,225
Net financial revenue					<u>10,667</u>
Gross profit					120,892
Taxation					<u>(19,828)</u>
Net profit					<u>101,064</u>
Capital expenditure	85,726	4,231	-	2,024	91,981
Non-cash expenses other than depreciation	22,157	(6,477)	-	5,524	21,204
<b>As at 30 June 2007</b>					
Segment assets	2,152,046	587,355	9,505	93,826	2,842,732
Segment liabilities	436,720	140,479	-	2,957	580,156

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

24 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 are composed 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 external.

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

	<u>Domestic customers</u>	<u>External customers</u>	<u>Total</u>
Turnover	339,821	152,741	492,562
Other income			3,493

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 15,098.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

## 24 SEGMENT INFORMATION (CONTINUED)

For the six months ended 30 June 2006

	<u>Domestic gas transportation</u>	<u>International gas transit</u>	<u>Gas supply</u>	<u>Unallocated</u>	<u>Total</u>
External sales	290,107	108,797	11,538	308	410,750
Other unallocated income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,877</u>	<u>2,877</u>
	290,107	108,797	11,538	3,185	413,627
Depreciation expense	63,150	19,574	-	1,609	84,333
Operating expenses other than depreciation	<u>241,881</u>	<u>9,441</u>	<u>11,474</u>	<u>(13,742)</u>	<u>249,054</u>
Operating result	(14,924)	79,781	64	15,318	80,240
Net financial gain / (loss)					<u>9,829</u>
Gross profit					90,069
Taxation					<u>(13,208)</u>
Net profit					<u>76,861</u>
Capital expenditure	78,264	4,413	-	582	83,259
Non-cash expenses other than depreciation	41,862	(11,333)	-	(32,507)	(1,978)
<b>As at 31 December 2006</b>					
Segment assets	1,919,968	692,566	9,128	286,043	2,907,705
Segment liabilities	461,879	140,416	-	22,570	624,866

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

24 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 are composed 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 external.

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

	<u>Domestic customers</u>	<u>External customers</u>	<u>Total</u>
Turnover	290,415	120,335	410,750
Other income			20,978

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.

25 EARNINGS PER SHARE

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.

	<u>Six months ended</u> <u>30 June 2007</u>	<u>Six months ended</u> <u>30 June 2006</u>
Profit / (loss) attributable to equity holders of the Company	101,064	76,861
Weighted average to number of shares	10,387,913	10,382,131
Basic (loss)/earnings per share (RON per share)	9.73	7.40

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

26 SIGNIFICANT NON-CASH TRANSACTIONS

*Mutual cancellations*

Approximately 12% of accounts receivable were settled via non-cash transactions during the six months ended 30 June 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 the six months ended on 30 June 2007 were of RON 55,741 (six months ended on 30 June 2006: 61,262 RON). These transactions represent gas received from Gazexport Russia in exchange for the gas transit services provided by the Company.

27 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 6.

At 30 June 2007, the total value of capital commitments is of RON 69,685 (31 December 2006: RON 78,029).

(ii) **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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in RON thousand, unless otherwise stated)

---

27 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

**(iii) 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 3<sup>rd</sup> party liability insurance for its car fleet.

**(iv) Environmental matters**

Environmental regulations are developing in Romania and the Company has not recorded any liability at 30 June 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.

**(v) Legal proceedings**

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant). 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.

**(vi) 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.

ANRGN (ANRE from 2007) 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.