TRANSGAZ SA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Introduction

Transgaz Mediaş SA ("the Company") was formed on 4 May 2000 as a joint-stock company established under the laws of Romania, as a successor of SNGN Romgaz SA (the "predecessor" entity, to be distinguished from the current company with the same name).

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

Shareholders structure

The Company is wholly owned by the Romanian State, represented by the Ministry of Economy and Commerce (the former "Ministry of Industry and Resources"). The statutory share capital of ROL 1,037,044 million at 31 December 2004 consists of 10,370,441 (31 December 2003: 10,363,087) ordinary shares each having a nominal value of ROL 100,000.

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;
- 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.

The average number of employees for the years ended 31 December 2004 and 31 December 2003 was 4,674 and 4,631 respectively.

Management structure

The persons who served office during the year were the following:

General Manager – Gabriel Coconea
Deputy General Manager – Laurentia Goage

Management structure has changed after the year end as described in Note 24.

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REPORT OF THE INDEPENDENT AUDITORS TO THE BOARD OF DIRECTORS OF TRANSGAZ SA

1 We have audited the accompanying balance sheet of Transgaz SA (the "Company") as of 31 December 2004 and the related statements of income, cash flows and changes in shareholders equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 Except as discussed in paragraph 3, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3 As discussed in note 7 to these financial statements, due to the absence of audited financial information prepared in accordance with International Financial Reporting Standards for one of the Company's subsidiaries, the respective investment is recorded at impaired cost. In our opinion, this practice is not in accordance with the requirements of IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" which prescribes that investments in subsidiaries should be consolidated.

4 In our opinion, except for the effect of such adjustments, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in paragraph 3, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit SRL — Bucharest, 27 April 2005

TRANSGAZ SA

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

(Expressed in ROL million unless otherwise stated)

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Revenue	4	7,687,773	8,068,463
Other operating revenues		129,746	104,329
		7,817,519	8,172,792
Cost of gas sold		(894,153)	(1,258,745)
Depreciation and amortisation		(1,545,243)	(1,480,829)
Provision for impairment of property, plant and equipment	6	(183,016)	-
Wages and salaries		(1,244,177)	(1,093,720)
Gas, materials and consumables		(1,446,814)	(1,170,558)
Royalty expense		(338,545)	(339,052)
Release of provision for current assets		121,476	9,053
Provision for liabilities and charges	18	(124,739)	-
Taxes and other state dues		(29,404)	(28,760)
Changes in inventories of finished goods and work in progress		(3,329)	8,323
Other operating expenses		(449,788)	(350,374)
Operating profit		1,679,787	2,468,130
Penalties		(70,290)	(192,173)
Net financial income/(expense)	5	92,120	(95,589)
Gain on net monetary position		-	278,721
Profit before taxation		1,701,617	2,459,089
Taxation	15	550,120	(875,463)
Net profit for the period		2,251,737	1,583,626

These financial statements have been approved for issue by the Board of Directors on 27 April 2005.

Florin Muntean
General Manager

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

Laurentia Goage
Deputy General Manager

The accompanying notes 1 to 24 form an integral part of these financial statements.

TRANSGAZ SA

BALANCE SHEET AS AT 31 DECEMBER 2004

(Expressed in ROL million unless otherwise stated)

	Notes	31 December 2004	31 December 2003
ASSETS			
Non-current assets			
Intangible fixed assets		114,992	131,830
Property, plant and equipment	6	25,218,655	24,126,106
Available for sale investments	7	11,590	9,265
		25,345,237	24,267,201
Current assets			
Inventories	8	401,172	378,143
Trade and other receivables	9	1,326,265	2,239,780
Cash and cash equivalents	10	547,945	625,377
		2,275,382	3,243,300
Total assets		27,620,619	27,510,501
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	11	5,451,228	5,450,493
Public property reserve	12	12,657,969	12,657,969
Retained earnings	12	3,592,221	661,484
		21,701,418	18,769,946
Non-current liabilities			
Long term borrowings	13	2,008,448	2,638,791
Long term tax and other state payables	14	21,548	132,103
Deferred income		77,314	45,493
Deferred tax liability	15	1,661,286	2,866,415
		3,768,596	5,682,802
Current liabilities			
Trade and other payables	16	983,621	929,864
Current tax and other state payables	14	308,431	1,469,174
Short term borrowings	17	733,814	658,715
Provision for liabilities and charges	18	124,739	-
		2,150,605	3,057,753
Total liabilities		5,919,201	8,740,555
Total equity and liabilities		27,620,619	27,510,501

These financial statements have been approved for issue by the Board of Directors on 27 April 2005.

Florin Muntean
General Manager

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Laurentia Goage
Deputy General Manager

The accompanying notes 1 to 24 form an integral part of these financial statements.

TRANSGAZ SA

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

(Expressed in ROL million unless otherwise stated)

	Note	Share capital	Public property reserve	Retained earnings	Total equity
31 December 2002		5,452,410	12,657,969	(139,765)	17,970,614
Share capital decrease		(1,917)	-	-	(1,917)
Profit for the year		-	-	1,583,626	1,583,626
Dividends		-	-	(782,377)	(782,377)
31 December 2003		5,450,493	12,657,969	661,484	18,769,946
Share capital increase	11	735	-	-	735
Profit for the year		-	-	2,251,737	2,251,737
Reversal of dividend distribution[1)]		-	-	679,000	679,000
31 December 2004		5,451,228	12,657,969	3,592,221	21,701,418

Share capital includes an adjustment for inflation. This is shown separately in Note 11 together with the movements in the statutory value of share capital.

[1)] Described in Note 3 Significant accounting policies – Dividends

The accompanying notes 1 to 24 form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

(Expressed in ROL million unless otherwise stated)

	Note	Year ended 31 December 2004	Year ended 31 December 2003
Cash generated from operations	19	4,171,271	3,953,107
Interest paid, net		(127,693)	(171,724)
Dividends paid		(329,597)	(670,907)
Income taxes paid		(651,017)	(754,722)
Net cash inflow from operating activity		3,062,964	2,355,754
Cash flow from investment activities			
Net payments to acquire property, plant and equipment		(2,841,528)	(2,173,172)
Net cash used in investment activities		(2,841,528)	(2,173,172)
Cash flow from financing activities			
Proceeds from long term borrowings		99,365	100,101
Repayments of long term borrowings		(473,716)	(563,561)
Repayments of short term debt		-	(91,186)
Net cash used in financing activities		(374,351)	(554,646)
Effect of exchange rate changes		(27,785)	5,988
Effect of hyperinflation on cash		-	(56,788)
Net decrease in cash and cash equivalents		(180,700)	(422,864)
Cash and cash equivalents at the beginning of the year	10	429,111	851,975
Cash and cash equivalents at the end of the year	10	248,411	429,111

The accompanying notes 1 to 24 form an integral part of these financial statements.

1 REPORTING ENTITY

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

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

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

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. The preparation of financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to categorisation and analysis of movements of fixed assets including the depreciation charge, impairment provision, impairment of receivables, provisions for liabilities and charges and deferred tax. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The measurement currency of the Company and the presentation currency for these financial statements is the ROL.

Changes in accounting policy

During 2003, the Company changed its accounting policy with respect to recognition of dividends due to the state. Prior to 2003, the Company recognised dividends in the period in which they were declared. In 2003 the Company decided to recognize the dividends, which are mandatorily payable to the state in accordance with Government Ordinance 64/2001, in the period in which the distributable profits are generated.

In accordance with the benchmark treatment prescribed by IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" this change in accounting policy has been accounted for retrospectively. The equity amounts as of 31 December 2002 have been restated to conform to the changed policy.

(Expressed in ROL million unless otherwise stated)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Accounting for the effect of hyperinflation

Prior to 1 January 2004 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the ROL in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). 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 in Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

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

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

The main guidelines followed in restating the corresponding figures were:

All corresponding amounts were stated in terms of the measuring unit current at 31 December 2003.

Monetary assets and liabilities held at 31 December 2003 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2003.

Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2003) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2003.

All items in the statement of income and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2003.

Gains or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 31 December 2003 were included in the statement of income as a monetary gain or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

a) Measurement currency

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company ("the measurement currency"). The financial statements are presented in ROL, which is the measurement currency of the Company.

b) Transactions and balances

Foreign currency transactions are translated into the measurement 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 of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income.

At 31 December 2004, the official rate of exchange as determined by the National Bank of Romania, was US dollar ("USD") 1 = ROL 29,067 (31 December 2003: USD 1 = ROL 32,595) and Euro ("EUR") 1 = ROL 39,663 (31 December 2003: EUR 1 = ROL 41,117). Exchange restrictions and currency controls exist relating to converting ROL into other currencies. The ROL is not a convertible currency outside of Romania.

Intangible assets

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved services) are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed five years.

Other intangible assets

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Intangible assets are not revalued.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are recorded at restated purchase or construction cost less accumulated depreciation and impairment loss if applicable.

Repairs and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and depreciated over the remaining useful life of the related asset.

Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred. Borrowing costs are expensed as incurred.

Assets in course of construction are capitalised and will be depreciated over the useful life of the asset, from the date of commissioning.

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis down to the assets' residual values.

The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Years
Buildings	50
Assets in the gas transportation system	20 - 50
Other fixed assets	5 - 20

Land is not depreciated.

The useful lives and residual values are revised periodically.

Impairment of property, plant and equipment

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statutory gross book value of ROL 4,997,269 million (restated net book value of ROL 7,403,104 million at 31 December 2004) representing gas pipelines are to be administered by Transgaz SA (one of the successors of SNGN Romgaz SA). Therefore, the Company has the exclusive right to use these assets. 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 recognised these assets, together with a corresponding reserve in equity.

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") and approved by the Government Decision 668 /20 June 2002, the royalty to be paid in respect of public property assets has been set for the period 2002 – 2006 at the level of 5% of the revenues from gas transportation and transit. The level of the royalty is to be revised after 2006. The duration of the concession agreement is of 30 years.

Investments

The Company holds investments classified as available-for-sale. Available-for-sale investments are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates and are included in non-current assets.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Company. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value, unless its fair value could not be reliably measured, in which case they are carried at cost less impairment. Adjustments to the carrying value are charged to the income statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Trade receivables

Trade receivables are recorded at original invoice amount, less provision made for impairment of these 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 receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market interest rate available in origination for similar borrowers.

Value added tax

Value added tax related to sales is payable to tax authorities based on the monthly VAT return, by 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 based on an application filed with the tax authorities and is subject to a prior fiscal control. The respective VAT can be reimbursed only if the invoices received from domestic suppliers have been paid. VAT related to sales and purchases which have not been settled at the balance sheet date is recognised in the balance sheet on a net basis and disclosed separately as a current asset or liability. Where provision has been made against debtors deemed to be uncollectible, bad debt expense is recorded for the gross amount of the debtor, including VAT. The related VAT needs to be paid to the State and, from 1 January 2004, can only be recovered if the debtor is written off based on a bankruptcy decision.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank as well as all short-term debt instruments with a maturity of less than three months. For the purposes of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts. In the balance sheet, bank overdrafts are included with borrowings in current liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shareholders' equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium

Dividends

Discretionary dividends are recognised 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 authorised for issue.

In accordance with Government Ordinance 64/2001, companies in which the state has a majority ownership have to distribute 50% of their net profit after deduction of compulsory distributions and contractual profit distributions to employees, as dividends to the state. This distribution is recognised in the period in which the respective profit arises, as it is a legal obligation of the Company.

In accordance with the provisions of the Emergency Government Ordinance 137/December 2004, approved by the Law 50/March 2005 net dividends related to 2004 as well as unpaid dividends from prior periods should be retained by the Company to finance its major investment projects relating to the modernisation and development of the natural gas transportation infrastructure. As a consequence, unpaid dividends as of 31 December 2004 were reversed; the movement is presented in the Statement of Changes in Shareholders' Equity.

Borrowings

Borrowings are recognised initially at the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. The current portion of long-term borrowings is included within "Current Liabilities". Accrued interest at the balance sheet date is included within "Other payables and accruals" within current liabilities unless it is not payable within the following 12 months; in this latter case it is included within long term liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Taxation

The Company records profit tax based upon net income per the Romanian financial statements in accordance with Romanian profit tax legislation. Differences between financial reporting under International Accounting Standards and Romanian Accounting Regulations give rise to material differences between carrying value of certain assets and liabilities and income and expenses for financial reporting and income tax purposes.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The principal temporary differences arise from the IFRS adjustments to property, plant and equipment.

Trade and other payable

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Pension costs and other post retirement benefits

The Company, in the normal course of business, makes payments to the Romanian State on behalf of its employees. All employees of the Company are members of the Romanian State pension plan. The Company does not operate any other pension scheme or post retirement benefit plan and, consequently, has no obligation in respect of pensions. In addition, the Company is not obligated to provide further benefits to current and former employees.

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 cost of sales.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, 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 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.

Revenue recognition

Revenue comprises the invoiced value of gas delivered and services rendered net of value-added tax, rebates and discounts.

Revenue from gas transportation and from the sale of gas is recognized when the gas has been delivered in accordance with contract; revenue from sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.

Other revenues earned by the Company are recognised on the following bases:

Interest income – on an effective yield basis.
Dividend income – when the Company's right to receive payment is established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mutual cancellation and barter transactions

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

Sales and purchases that are expected to be settled by mutual settlements, 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 various market information. Non-cash transactions have been excluded from the statement of cash flows.

Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arms length transaction.

Financial instruments carried on the balance sheet include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The carrying amount of financial assets and liabilities with a maturity of less than one year approximate their fair values. At 31 December 2004 and 2003, the fair value of long-term debt which is estimated by discounting the future contractual cash flows at the current market interest rate available for similar financial instruments, did not materially differ from the carrying amount of this financial instrument.

The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When securities classified as available-for-sale are sold or impaired the accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

(Expressed in ROL million unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements

During the period December 2003 to present, the IASB revised 17 of its standards and issued 6 new standards. These standards are effective for accounting periods commencing on or after 1 January 2005 but may be adopted early. The Company has not early adopted these revised and new standards in preparing these financial statements.

Had the Company adopted the revised and new standards, the main impact on these financial statements would have been additional disclosures in respect of transactions with other state entities as required by IAS 24 revised, – "Related parties disclosures". Thus, a significant proportion of the Company's revenue from transportation and sales of gas and related receivables would have been disclosed as related party transactions and balances.

Comparatives

Where necessary, comparative figures have been reclassified to conform with changes of presentation in the current year.

4 REVENUE

	Year ended 31 December 2004	Year ended 31 December 2003
Revenue from domestic gas transportation services	4,347,742	4,173,438
Revenue from international gas transit services	2,423,158	2,612,968
Revenue from sales of gas	911,298	1,275,972
Revenue from other services	5,575	6,085
	7,687,773	8,068,463

5 NET FINANCIAL INCOME/ (EXPENSE)

	Year ended 31 December 2004	Year ended 31 December 2003
Foreign exchange gains	308,206	104,635
Foreign exchange losses	(87,100)	(36,612)
Interest income	28,720	22,734
Interest expense	(157,706)	(186,346)
	92,120	(95,589)

(Expressed in ROL million unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transportation system assets	Other fixed assets	Assets in course of construction	Total
Cost					
31 December 2003	4,457,857	41,113,929	2,838,330	1,709,689	50,119,805
Additions	-	-	-	2,845,398	2,845,398
Transfers	166,218	2,815,885	330,617	(3,312,720)	-
Disposals	(16,171)	-	(238,641)	-	(254,812)
31 December 2004	4,607,904	43,929,814	2,930,306	1,242,367	52,710,391
Depreciation					
31 December 2003	1,403,435	22,505,045	2,085,219	-	25,993,699
Charge for the year	124,731	1,197,444	185,131	-	1,507,306
Impairment charge	-	183,016	-	-	183,016
Disposals	(2,058)	-	(190,227)	-	(192,285)
31 December 2004	1,526,108	23,885,505	2,080,123	-	27,491,736
Net book value					
31 December 2003	3,054,422	18,608,884	753,111	1,709,689	24,126,106
Net book value					
31 December 2004	3,081,796	20,044,309	850,183	1,242,367	25,218,655

Transportation system assets comprise high pressure gas pipelines and the related assets such as compressor stations, measuring equipment, gas storage facilities, etc.

The gross book value of fully depreciated assets still in use is ROL 13,598,483 million (2003: ROL 13,021,447 million).

(Expressed in ROL million unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Public property assets

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

Cost	**Year ended 31 December 2004**	**Year ended 31 December 2003**
1 January 2004	27,364,951	27,364,951
Additions	-	-
Disposals	-	-
31 December 2004	27,364,951	27,364,951
Depreciation		
1 January 2004	19,961,847	19,292,906
Charge for the year	644,357	668,941
Impairment charge	183,016	-
Disposals	-	-
31 December 2004	20,789,220	19,961,847
Net book value	6,575,731	7,403,104

These assets are public property and are to be administrated by Transgaz SA. Public property assets may not be sold 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 will become public property at the end of its' useful economic life.

According to the Government Decision 1644 from 7 October 2004, public property assets with a statutory gross book value of ROL 89,178 million which were no longer used by the Company, were transferred to the private property of the State, with the view of either decommissioning or transferring to other entities. Any proceeds on disposal of state property are transferred to the State budget. Because at 31 December 2004 no actual decommissioning or transfer was made, the Company's management decided to book an impairment provision in amount of ROL 183,016 million, being the restated carrying amount of the respective assets, on the basis they are no longer generating revenues for the Company.

(Expressed in ROL million unless otherwise stated)

7 AVAILABLE FOR SALE INVESTMENTS

Company	Activity	% Ownership	31 December 2004	31 December 2003
Resial SA	manufacturing	68.16	181,165	181,165
Mebis SA	manufacturing	17.47	64,617	-
Wirom Gas SA	gas import, construction of pipelines and underground storage facilities	9.97	304	1,523
Banca de Credit si Dezvoltare Romexterra SA	banking activity	0.57	11,286	7,742
Less provision for investments in Resial and Mebis			(245,782)	(181,165)
			11,590	9,265

Investment in Resial SA

The shares in Resial SA were received in December 2003 through enforced collection of receivables from Coloni Serv Com SA. In February 2004, the Company initiated legal proceedings in order to sell 35.16% of its interest in Resial SA, however the process was not concluded by the end of the year. Due to the absence of audited financial information prepared in accordance with IFRS, the investment is not consolidated and carried at cost less impairment provision at 100% of cost, which reflects Resial's financial condition.

At 31 December 2004 the Company also pledged a deposit of ROL 10,000 million as guarantee for a loan taken by Resial SA. A provision of 100% of this amount was also made by the Company (Note 18).

Investment in Mebis SA

The shares in Mebis SA were received in February 2004 through enforced collection of receivables from Coloni Serv Com SA. The investment is carried at cost less impairment provision at 100% of cost, which reflects Mebis's financial condition.

Investment in Wirom Gas SA

At 31 December 2003 the Company held 49.97% of the shares (and voting rights) in Wirom Gas SA, a joint-venture with Wintershall Erdgas Handelshaus GmbH (49.97%) and others (0.06%). In February 2004 the Company sold 40% of its shares in Wirom SA to Distrigaz Sud SA.

The joint-venture was not proportionally consolidated or equity accounted in 2003 and the first two months of 2004 due to its immaterial impact on financial position and results of the Company; consequently, it was classified as an available-for-sale investment.

(Expressed in ROL million unless otherwise stated)

8 INVENTORIES

	31 December 2004	31 December 2003
Spare parts and materials	437,538	409,978
Provisions for slow moving inventories	(36,366)	(31,835)
	401,172	378,143

9 TRADE AND OTHER RECEIVABLES

	31 December 2004	31 December 2003
Trade receivables	2,295,933	3,496,486
Advances from suppliers	39,653	43,373
VAT recoverable	84,173	22,041
Loan to subsidiary	24,318	-
Other receivables	10,995	21,809
Provision for impairment of receivables	(1,104,489)	(1,343,929)
Provision for impairment of loan to subsidiary	(24,318)	-
	1,326,265	2,239,780

As at 31 December 2004, ROL 141,434 million (31 December 2003: ROL 218,588 million) of net trade and other receivables are denominated in foreign currency (USD).

Receivables of ROL 619 million (31 December 2003: ROL 7,753 million) are receivable from related parties (see Note 20).

Trade receivables have been pledged in favour of banks as collateral for bank loans as described in Note 13.

(Expressed in ROL million unless otherwise stated)

10 CASH AND CASH EQUIVALENTS

	31 December 2004	31 December 2003
Cash at bank in ROL	162,677	364,086
Cash at bank in foreign currency	383,773	259,782
Other cash equivalents	1,495	1,509
	547,945	625,377

As at 31 December 2004 cash at bank includes ROL 9,652 million (31 December 2003: ROL 3,210 million) blocked deposits in foreign currencies and ROL 10,000 million (31 December 2003: ROL12,800 million) deposit pledged in favour of banks as guarantee for a loan taken by Resial SA (Note 7).

The weighted average effective interest rate on short term bank deposits was 4.9% at 31 December 2004 (31 December 2003: 8.5%) 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 2004	31 December 2003
Cash and cash equivalents	547,945	625,377
Less: Bank overdrafts (Note 17)	(299,534)	(196,266)
	248,411	429,111

(Expressed in ROL million unless otherwise stated)

11 SHARE CAPITAL

	Number of ordinary shares	Share capital
Statutory		
At 31 December 2002	10,380,605	1,038,061
Increase	16,978	1,698
Decrease	(34,496)	(3,450)
At 31 December 2003	10,363,087	1,036,309
Increase	7,354	735
At 31 December 2004	10,370,441	1,037,044
IAS		
Hyperinflation adjustment to share capital up to 31 December 2003		4,414,184
At 31 December 2004		5,451,228

The authorised and issued statutory share capital consists of shares with a nominal value of ROL 100,000 each. Each share carries one vote. All shares are held by the Romanian State, represented by Ministry of Economy and Commerce (former "Ministry of Industry and Resources").

The Company has recorded revaluation of fixed assets in its statutory financial statements and certain revaluation differences were used to increase the statutory share capital. 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 are recognised annually in the Statement of Income. 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 increase which occurred during 2004 has been recognised in nominal terms as the hyperinflation ceased from 1 January 2004.

The increase in 2004 relates to land which has been contributed to share capital by the Government of Romania through its representatives.

(Expressed in ROL million unless otherwise stated)

12 PUBLIC PROPERTY RESERVE AND LEGAL RESERVES

Public property reserve

A reserve corresponding to public property assets (Note 3) was included as part of equity under the heading "Public Property Reserve" at the statutory value restated in terms of 31 December 2003 of the respective assets.

Distributable reserves

Legal reserve

In accordance with Romanian legislation and its Articles of Incorporation, the Company has to appropriate five percent of its profits per statutory books to a statutory reserve up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for distribution at 31 December 2004, amounted to 207,409 million (31 December 2003: ROL 201,612 million). This reserve is restated and included within retained earnings in these financial statements.

Other reserves

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Romanian legislation identifies the basis of distribution as the current year net income. For 2004, the statutory profit for the Company as reported in the published annual statutory reporting forms was ROL 1,790,030 million (31 December 2003: ROL 1,569,931 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

13 LONG TERM BORROWINGS

	31 December 2004	31 December 2003
IBRD loan	119,145	146,456
Gazprombank loan	2,196,243	2,892,589
Raiffeisen Bank loan	19,038	35,525
Efibanca loan	108,302	26,670
Less: current portion of loans	(434,280)	(462,449)
	2,008,448	2,638,791

13 LONG TERM BORROWINGS (CONTINUED)

IBRD loan

The loan from the International Bank for Reconstruction and Development ("IBRD" - RO 3723) was given 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, subsequent to the latest restructuring of the gas sector following which 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.

The Company also concluded a subsidiary loan agreement with the Ministry of Finance regarding its portion of the 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 Company's portion of the loan has been determined at USD 7,768 thousands.

The loan is denominated in USD (the balances at 31 December 2004 and 31 December 2003 were USD 4,099 thousand and USD 4,493 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 2004 was approximately 5 % (2003: 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 ROL 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 to the interest paid.

The loan was entirely drawn down up to 31 December 2004.

The loan is secured by a deposit made by the Company subsequent to the year end in favour of the Ministry of Finance. The deposit is equal with the following instalment to be reimbursed.

(Expressed in ROL million unless otherwise stated)

13 LONG TERM BORROWINGS (CONTINUED)

Repayment schedule

The maturity of the IBRD loan is set out bellow:

	31 December 2004	31 December 2003
Within 1 year	11,151	11,548
Between 1 and 2 years	11,990	12,418
Between 2 and 5 years	41,679	59,809
Over 5 years	54,325	62,681
	119,145	146,456

Gazprombank loan

The Company contracted two loans from Gazprombank for investment projects.
Both loans from Gazprombank are entirely drawn up to 31 December 2004.

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. By 31 December 2004, 45 repayments amounting to USD 18.916 million in aggregate had been made. The closing balance is USD 29.425 million. The loan bears an interest rate of 0.5% per month for the outstanding balance.

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.

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).

(Expressed in ROL million unless otherwise stated)

13 LONG TERM BORROWINGS (CONTINUED)

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. By 31 December 2004, repayments amounting to USD 20.867 million in aggregate had been made. The closing balance is USD 46.133 million. The loan bears an interest rate of 1 month LIBOR +2% (default interest rate: 1 month LIBOR +4%).

Repayment schedule

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

	31 December 2004	31 December 2003
Within 1 year	383,260	429,778
Between 1 and 2 years	383,260	429,778
Between 2 and 5 years	1,149,780	1,289,334
Over 5 years	279,943	743,699
	2,196,243	2,892,589

Raiffeisen Bank loan

The Raiffeisen Bank loan 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 is EURIBOR 3 months + 2% per year. The loan is guaranteed with the present and future receivables from Distrigaz Sud SA, a pledge on the bank accounts opened at the bank and a promissory note issued at sight. Reimbursements are made quarterly.

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

	31 December 2004	31 December 2003
Within 1 year	15,230	15,789
Between 1 and 2 years	3,808	15,789
Between 2 and 5 years	-	3,947
	19,038	35,525

(Expressed in ROL million unless otherwise stated)

13 LONG TERM BORROWINGS (CONTINUED)

Efibanca loan

The loan from Efibanca Spa, a company belonging to Banca Populare di Lodi banking group was contracted in June 2003 to finance the acquisition of valves and related services from TYCO Valves&Controls ITALIA SRL. The loan bears an interest of 4.38% per annum. The reimbursement of each drawing is to be done in 10 bi-annual instalments.

The maturity of the Efibanca loan is set out bellow.

	31 December 2004	31 December 2003
Within 1 year	24,639	5,334
Between 1 and 2 years	24,639	5,334
Between 2 and 5 years	59,024	16,002
	108,302	26,670

Effective interest rate

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

	Year ending 31 December 2004	Year ending 31 December 2003
Long term loans in USD	4.5%	4.4%
Long term loans in EUR	4.3%	4.4%

(Expressed in ROL million unless otherwise stated)

14 TAX AND OTHER STATE PAYABLES

Current taxes and other state payable

Current taxes and other state payable are comprised of the following:

	31 December 2004	31 December 2003
Income tax	219,579	215,589
VAT	-	52,099
Dividends	-	1,086,834
Other taxes	88,852	114,652
	308,431	1,469,174

Long-term taxes payable

Long-term taxes payable comprise various taxes payable to the State which were previously overdue and which have been restructured to be repaid over a period of up to 5 years ending March 2006, as described below. The net present value of this debt and its maturity profile is as follows:

	31 December 2004	31 December 2003
Current	121,114	126,890
1 to 2 years	21,548	132,103
Total restructured	142,662	258,993
Less: current portion of restructured taxes	(121,114)	(126,890)
Long-term portion of restructured taxes	21,548	132,103

Current portion of restructured taxes is included in current tax and other state payable.

The rescheduled tax liabilities accrue interest and penalties of 0.06% per day which is equal to an effective rate of 22% per annum (2003: 22%).

(Expressed in ROL million unless otherwise stated)

15 TAXATION

Income tax (release)/expense

	Year ended 31 December 2004	Year ended 31 December 2003
Income tax expense - current	655,009	657,188
Deferred tax (release)/ expense - origination and reversal of temporary differences	(173,218)	218,275
Deferred tax income -effect of reduction in tax rate	(1,031,911)	-
Income tax (release)/expense	(550,120)	875,463

The Company accrued income taxes at the rate of 25% on profits computed in accordance with the Romanian tax legislation. The tax rate will be reduced to 16% from 1 January 2005. Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Profit before taxation	1,701,617	2,459,089
Theoretical tax charge at statutory rate of 25%	425,404	614,772
Tax effect of items which are not deductible or assessable for taxation purposes:		
Impact of IFRS adjustments resulting in permanent differences	12,638	470,941
Non-assessable income	(43,706)	(1,447)
Non-deductible expenses	87,455	73,285
Hyperinflation effect on deferred tax balance at beginning of the year	-	(282,088)
Effect of reduction in tax rate	(1,031,911)	-
Income tax (release)/expense	(550,120)	875,463

(Expressed in ROL million unless otherwise stated)

15 TAXATION (CONTINUED)

Deferred tax

Deferred tax assets/ liabilities are measured at the effective tax rate of 16% as at 31 December 2004 (25% as at 31 December 2003). The net effect of the change on deferred tax balances recognised as at 31 December 2004 is reflected in the statement of income for the year ended 31 December 2004.

The movement on the deferred income tax account is as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
At the beginning of the year	2,866,415	2,648,140
Expense / (release) for the year	(1,205,129)	218,275
At the end of the year	1,661,286	2,866,415

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

	31 December 2003	Effect of temporary differences	Effect of change in tax rate	31 December 2004
Deferred tax liabilities				
Restatement and other fixed assets adjustments	2,861,432	(163,496)	(1,030,116)	1,667,820
Restatements of inventories	3,527	(3,316)	(1,269)	(1,058)
Other taxable temporary differences	1,456	(185)	(526)	745
	2,866,415	(166,997)	(1,031,911)	1,667,507
Deferred tax assets				
Accruals	-	6,221	-	6,221
Net deferred tax liability	2,866,415	(173,218)	(1,031,911)	1,661,286

(Expressed in ROL million unless otherwise stated)

16 TRADE AND OTHER PAYABLES

	31 December 2004	31 December 2003
Trade payables	359,443	339,844
Suppliers of fixed assets	510,620	514,703
Employees payable	81,905	42,280
Other liabilities	31,653	33,037
	983,621	929,864

As at 31 December 2004, ROL 127,029 million (31 December 2003: ROL 202,697 million) of trade and other payables are denominated in foreign currency, mainly USD.

17 SHORT TERM BORROWINGS

Short-term borrowings are analysed as follows:

	Currency	31 December 2004	31 December 2003
1. BRD overdraft	ROL	182,023	-
2. ABN AMRO Bank overdraft	ROL	117,511	196,266
Current portion of long term loans (Note 13)		434,280	462,449
		733,814	658,715

1. BRD overdraft

BRD overdraft agreement has been concluded in 2004 with a ROL 200 million ceiling and is due in July 2005. The loan is secured by a pledge on receivables from the contract with Azomures and on cash accounts with BRD. Interest rate is BUBOR + 1% p.a. The effective interest rate in 2004 was 20%.

2. ABN AMRO Bank overdraft

ABN AMRO Bank overdraft agreement has been concluded in 2004 with a ROL 200 million ceiling and is due in October 2005. The loan is secured by general pledge over the Company's receivables. Interest rate is BUBOR + 0.95% p.a. The effective interest rate in 2004 was 20% (2003: 27%).

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

(Expressed in ROL million unless otherwise stated)

18 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2004	31 December 2003
Provision for litigation	114,739	-
Provision for guarantees issued	10,000	-
	124,739	-

As at 31 December 2004 the Company recorded provisions in respect of a litigation with the "Gas Federation" trade union (Note 22) and guarantees issued for a loan taken by Resial SA (Note 7).

19 NET CASH-FLOW FROM OPERATING ACTIVITY

	Year ended 31 December 2004	Year ended 31 December 2003
Net profit before taxation	1,701,617	2,459,089
Adjustments for:		
Depreciation and amortisation	1,545,243	1,480,829
Provision for impairment of property, plant and equipment	183,016	-
Loss on disposal of fixed assets	63,706	42,495
Provisions for liabilities and charges	124,739	-
Provisions for debtors and inventories	(121,476)	(9,053)
Net interest expense	128,986	163,612
Effect of exchange rate changes on non-operating items	(256,377)	(9,924)
Inflation effect on non-operating items	-	(550,572)
Operating profit before working capital changes	3,369,454	3,576,476
Decrease in trade and other debtors	1,038,602	1,470,167
Increase in inventories	(27,560)	(136,973)
Increase in trade and other creditors	(209,225)	(956,563)
Cash generated from operations	4,171,271	3,953,107

(Expressed in ROL million unless otherwise stated)

20 TRANSACTIONS WITH RELATED PARTIES

The gas sector is of great importance to Romania and Transgaz is central to the operations of the national gas system. The Government therefore has controlled and is expected to continue to control the operations of the Company.

The Ministry of Economy and Commerce appoints the Company's management structures as follows:

- the representatives of the State in the General Meeting of Shareholders of the Company;
- the Company's General Manager, who nominates the Company's Executive Directors;
- the Company's Board of Directors.

Transactions with the Government and amounts owed to or receivable from the Government relate mainly to taxes payable to or receivable from the Government and are shown in the appropriate notes. The Company also conducts most part of its operations with other state-controlled enterprises. In accordance with the exemption allowed by IAS 24, the Company has chosen not to disclose the transactions and balances with other state-controlled enterprises.

The related parties transactions disclosed below are with Resial SA and Wirom Gas SA (Note 7). Transactions with Wirom Gas SA have been priced at market prices. Transactions with Resial SA were insignificant, however the Company has issued a guarantee in amount of ROL 10,000 million for a loan taken by Resial. A full provision was made for this amount as management expects the Company will need to settle this amount (Note 18).

During the years ended 31 December 2004 and 2003 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

	Year ended 31 December 2004	Year ended 31 December 2003
Sales of goods and services		
Wirom Gas	16,991	29,793
Dividends received		
Wirom Gas	77	4,543

ii) Balances with related parties

	31 December 2004	31 December 2003
Accounts receivable from related parties		
Wirom Gas	619	7,753

(Expressed in ROL million unless otherwise stated)

20 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	31 December 2004	31 December 2003
Advances from related parties		
Wirom Gas	-	211

iii) Key management compensation

	Year ended 31 December 2004	Year ended 31 December 2003
Salaries paid to key management	13,718	11,050

21 SIGNIFICANT NON-CASH TRANSACTIONS

Mutual cancellations

Approximately 37% and 36% of accounts receivable were settled via non-cash transactions during the years ended 31 December 2004 and 2003, respectively. The transactions represent mainly sale of products and services in exchange of raw materials and services or cancellation of mutual balances with customers and suppliers within the operating cycle.

Barter transactions

The barter transactions during 2004 were of ROL 894,153 million (2003: ROL 1,258,745 million). These transactions represent gas received from Gazexport for the gas transit services for Turkey and Greece.

22 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

(i) Contingencies

Late payment penalties

An inspection by the fiscal authorities carried out in 2000 identified late payment penalties for overdue liabilities to the state budget amounting to ROL 1,783,093 million. In March 2001, the Company was awarded a rescheduling of outstanding liabilities due to the state budget as at 31 March 2001, as well as an exemption of the related late payment penalties computed as at that date. This rescheduling and penalty exemption facility is conditional upon payment by the Company of its current liabilities as they fall due from 2001 onwards. Should the Company not observe this condition, the exemption is cancelled and the late payment penalties become payable immediately, as well as any penalties accruing from March 2001 onwards.

(Expressed in ROL million unless otherwise stated)

22 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

Public property assets

According to the Concession agreement, the level of the royalty to be paid in respect with public property assets, which has been set at 5% of the revenues from gas transportation and transit for the period 2002 - 2006, is to be revised after 2006. Consequently, there is a risk that the level of the royalty may be increased after that date.

According to the Concession agreement, assets constructed by the Company between 31 July 1999 and 30 September 2001, with a statutory gross book value of ROL 2,193 billion, which are by their nature part of the National Gas Transportation System, are to be returned to ANRM at the end of the Concession Agreement.

(ii) Commitments

Public property assets

As stipulated in the Appendix 4 of the Concession agreement, the Company should accomplish a minimum compulsory capital expenditure program for the modernization of the National Gas Transportation System for the period 2004-2006, as follows:

2004	ROL 1,542 billion
2005	ROL 2,049 billion
2006	ROL 1,934 billion

The Concession Agreement also specifies the following:

- ANRM has the option to buy the assets listed in Appendix 4 of the Concession agreement upon expiry of the concession agreement, at a price equal with their statutory net book value at that time (revaluations being allowed);
- All operational expenses related to the operation of the public property assets are covered by Transgaz;
- The National Gas Transportation System cannot be divided and includes any development (resulting in increased capacity) or improvement (resulting in improved functional parameters);
- Changes in transport tariffs must be approved by ANRM;
- No sub-concessions are allowed;
- ANRM establishes tariffs and approves improvements and/or development work;
- ANRM can require Transgaz to accept a client;
- ANRM can decide to finance improvement/development works;
- Transgaz is liable for all environment damages which may result from the operation of the National Gas Transportation System.

22 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

(iii) Taxation

The Romanian taxation system is undergoing 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 (respectively 0.06% per day and 0.5% per month of delay). 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.

(iv) Insurance policies

The Company holds no insurance policies in relation to its operations, product liability, or in respect of public liability or other insurable risks.

(v) Environmental matters

Environmental regulations are developing in Romania and the Company has not recorded any liability at 31 December 2004 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.

(vi) Legal proceedings

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. 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 ROL 115 billion, 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 will be heard in the first half of 2005. However, management estimates it is more likely than not that the amount will be settled and therefore a provision of ROL 114,739 million was posted in the Company accounts as at 31 December 2004.

22 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

(vii) Operating environment of the Company

The Romanian economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside Romania, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within Romania is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been marked improvements in the economic trends, the future economic direction of Romania is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments.

(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 are continuing to adopt new legislation that impacts the sector in general, and the Company in particular. 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. The Government of Romania is ultimately the sole shareholder of the Company.

The regulator of the gas sector is the National Authority for the Regulation of the Natural Gas sector ("ANRGN"). The Authority establishes the tariff for gas transportation and also prescribes the framework contracts which define the commercial relationships between the companies in the gas sector and with customers outside the sector. Consequently, the Company's activity is fundamentally impacted by the decisions made by ANRGN.

23 FINANCIAL RISKS

(i) Credit risk

Financial assets, which potentially subject Company entities to credit risk, consist principally of 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 on top 5 clients, which make up 91% of trade receivable balance at 31 December 2004 (2003: 78%). 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.

(Expressed in ROL million unless otherwise stated)

23 FINANCIAL RISKS (CONTINUED)

(ii) Interest rate risk

The Company is exposed to interest rate risk through its interest-bearing long-term borrowings. The Company has not entered into any arrangements to mitigate this risk. The Company has no significant interest-bearing assets.

(iii) Fair values

The carrying amount of financial assets and liabilities with a maturity of less than one year approximate their fair values. At 31 December 2004 and 31 December 2003, the fair value of long-term debt which is estimated by discounting the future contractual cash flows at the current market interest rate available for similar financial instruments, did not materially differ from the carrying amount of the financial instruments.

(iv) Foreign exchange risk

The Company attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Notes 9) and liabilities (see Notes 13, 16 and 17) give rise to foreign exchange exposure.

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations. However, management believes that the Company is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

Monetary assets and liabilities denominated in ROL and other currencies are stated below:

	31 December 2004	31 December 2003
Assets		
Monetary assets in ROL	1,348,937	2,386,726
Monetary assets in foreign currency	525,273	478,432
	1,874,210	2,865,158
Liabilities		
Monetary liabilities in ROL	(1,486,104)	(2,524,713)
Monetary liabilities in foreign currency	(2,569,757)	(3,303,937)
	(4,055,861)	(5,828,650)
Net monetary position in ROL	(137,167)	(137,987)
Net monetary position in foreign currency	(2,044,484)	(2,825,505)

24 SUBSEQUENT EVENTS

i) Change in key management

During the first quarter of 2005, the management of the Company has changed as follows:

Chairman: Victor Schmidt
General Manager: Florin Muntean
Deputy General Manager: Laurentia Goage

ii) Privatisation Strategy

In March 2005 the Government published the strategy for 2005 for accelerating the privatisation process and attracting investments for the companies owned by the Ministry of Economy and Commerce (Government Decision 184/March 2005). As regards Transgaz, the strategy includes:

- initiating the process of a primary public listing on the capital markets of a stake of 15% of the Company's shares;
- reserving a stake in the Company to be distributed by the Government as restitution of property according to Law 10/2001.

iii) Dividends

On 10 May 2005 the Company declared dividends in amount of ROL 911,556 million. In accordance with the provisions of the Emergency Government Ordinance 137/December 2004, approved by the Law 50/March 2005 net dividends related to 2004 (amounting ROL 820,400 million) as well as any unpaid dividends from prior periods (amounting ROL 679,000 million) will not be distributed but retained by the Company in order to finance major investment projects regarding modernisation and development of the natural gas transportation infrastructure.