

**SOCIETATEA NAȚIONALĂ DE TRANSPORT GAZE NATURALE  
„TRANSGAZ” S.A.**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2009**

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

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**STATEMENT OF FINANCIAL POSITION**  
(expressed in RON thousand, unless otherwise stated)

**STATEMENT OF FINANCIAL POSITION**

Note 31 December 2009 31 December 2008

**ASSETS**

**Non-current assets**

Intangible assets	9	11,106	10,078
Property, plant and equipment	7	2,910,385	2,707,989
Available for sale financial assets	10	14,423	475
Trade and other receivables	12	<u>6.716</u>	<u>-</u>
		2,942,630	2,718,542

**Current assets**

Inventories	11	34,877	40,362
Trade and other receivables	12	260,716	256,385
Cash and cash equivalents	13	<u>196.566</u>	<u>301.587</u>
		<u>492.159</u>	<u>598.334</u>

**Total assets**

3,434,789 3,316,876

**EQUITY AND LIABILITIES**

**Shareholders' equity**

Share capital	14	559,157	559,157
Share premium	14	247,479	247,479
Public property reserve	15	1,265,797	1,265,797
Retained earnings	15	<u>687.250</u>	<u>619.340</u>
		2,759,683	2,691,773

**Non-current liabilities**

Long term borrowings	16	41,569	99,074
Provision for employee benefits	22	23,293	22,156
Deferred income	17	174,729	127,920
Deferred tax liability	18	<u>88.864</u>	<u>18.458</u>
		328,455	267,608

**Current liabilities**

Trade and other payables	19	261,520	270,823
Provision for contingent liabilities	21	185	-
Current income tax liabilities	18	25,794	14,589
Short term borrowings	20	<u>59.152</u>	<u>72.083</u>
		<u>346.651</u>	<u>357.495</u>

**Total liabilities**

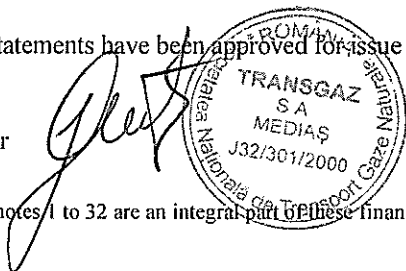
675.106 625.103

**Total equity and liabilities**

3,434.789 3,316.876

These financial statements have been approved for issue by the Board of Directors on 28 May 2010.

Florin Muntean  
General Manager



Radu Moldovan  
Economic Department Manager

The accompanying notes 1 to 32 are an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**  
(expressed in RON thousand, unless otherwise stated)

**STATEMENT OF COMPREHENSIVE INCOME**

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue		1,181,930	1,116,646
Other income	23	<u>32,060</u>	<u>16,303</u>
		1,213,990	1,132,949
Depreciation and amortisation	7; 9	(184,716)	(174,474)
Wages and salaries		(239,549)	(221,827)
Gas, materials and consumables used		(173,813)	(218,457)
Royalty expense		(118,193)	(111,665)
Maintenance and transportation		(98,848)	(113,577)
Other employee benefits	27	(50,898)	(50,444)
Third party services		(20,874)	(16,367)
Taxes and other state dues		(6,732)	(12,720)
Provision for employee benefits	22	915	(477)
Provision for liabilities and charges	21	(185)	1,278
Other operating expenses	24	<u>(14,512)</u>	<u>(22,240)</u>
<b>Operating profit</b>		306,585	191,979
Financial income	25	38,453	37,568
Financial expense	25	<u>(20,800)</u>	<u>(35,171)</u>
<b>Profit before tax</b>		324,238	194,376
Taxation	18	<u>(133,055)</u>	<u>48,321</u>
<b>Net profit for the period</b>		<u>191,183</u>	<u>242,697</u>

Per share amounts attributable to the equity holders of the Company during the year (expressed in RON per share) are as follows:

Earnings, basic and diluted (see Note 29)	16.24	20.61
Dividend distribution (RON/share, Note 15)	10.47	9.66

The accompanying notes 1 to 32 are an integral part of these financial statements.



**STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY**  
(expressed in RON thousand, unless otherwise stated)

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Note	Share capital	Share premium	Public property reserve	Retained earnings	Total equity
Balance at 31 December 2007		559,157	247,479	1,265,797	490,378	2,562,811
Profit for the year		-	-	-	242,697	242,697
<i>Transactions with owners</i>						
Dividends for 2007	15	-	-	-	(113,735)	(113,735)
<b>Balance at 31 December 2008</b>		<u>559,157</u>	<u>247,479</u>	<u>1,265,797</u>	<u>619,340</u>	<u>2,691,773</u>
Profit for the year		-	-	-	191,183	191,183
<i>Transactions with owners</i>						
Dividends for 2008	15	-	-	-	(123,273)	(123,273)
<b>Balance at 31 December 2009</b>		<u>559,157</u>	<u>247,479</u>	<u>1,265,797</u>	<u>687,250</u>	<u>2,759,683</u>

The accompanying notes 1 to 32 are an integral part of these financial statements.

**CASH FLOW STATEMENT**

(expressed in RON thousand, unless otherwise stated)

**CASH FLOW STATEMENT**

	Note	Year ended 31 December 2009	Year ended 31 December 2008
<b>Cash generated from operations</b>	26	464,152	279,134
Interest paid		(10,750)	(12,991)
Interest received		34,555	31,069
Income taxes paid		<u>(51,445)</u>	<u>(45,660)</u>
<b>Net cash inflow from operating activity</b>		436,512	251,552
<b>Cash flow from investment activities</b>			
Payments to acquire property, plant and equipment		(373,157)	(205,338)
Proceeds from disposal of property plant and equipment		92	2,673
Acquisition of financial investments		<u>(13,948)</u>	<u>(448)</u>
<b>Net cash used in investment activities</b>		(387,013)	(203,113)
<b>Cash flow from financing activities</b>			
Dividends paid	15	(122,501)	(110,057)
Proceeds from long term borrowings		-	47,650
Repayments of long term borrowings		<u>(32,019)</u>	<u>(35,524)</u>
<b>Net cash used in financing activities</b>		(154,520)	(97,931)
<b>Net change in cash and cash equivalents</b>		(105,021)	(49,492)
Cash and cash equivalents at the beginning of the year	13	<u>301,587</u>	<u>351,079</u>
<b>Cash and cash equivalents at the end of the year</b>	13	<u>196,566</u>	<u>301,587</u>

The accompanying notes 1 to 32 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

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

The Company was set-up in May 2000, following several reorganisations of the gas sector in Romania, as follows:

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

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

The gas sector is regulated by the National Agency for Regulation of the Energy Sector (“Agenția Națională pentru Reglementare în Energie” – “ANRE”). The main responsibilities of ANRE are the following:

- issuance or withdrawal of licenses for companies operating in the natural gas sector;
- publication of framework contracts for sale, transport, acquisition and distribution of natural gas;
- setting criteria, requirements and procedures related to the selection of eligible consumers;
- setting pricing criteria and computation methods for the natural gas sector.

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

These financial statements were authorised for issue by the Board of Directors on 28 May 2010.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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**2. OPERATING ENVIRONMENT OF THE COMPANY**

**Romania**

Romania still displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Romanian economy since mid-2008:

- (i) Decreased international economic activity has resulted in lower income from exports, lower domestic demand and lower remittances from Romanians working abroad. Romania's economy contracted in 2009.
- (ii) The rise in Romanian and emerging market risk premium resulted in an increase in foreign financing costs. Romania was downgraded below investment grade by the main rating agencies in 2009.
- (iii) The depreciation of the Romanian RON against hard currencies (The official European EURO (EUR) exchange rate of the Central Bank of Romania ("CBR") increased from RON 3.7348 at 1 October 2008 to RON 4.2282 at 31 December 2009) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- (iv) As a result of decreased economic activity, Government revenues decreased and the Government incurred a large fiscal deficit in 2009.

Debtors of the Company were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The tax and currency legislation within Romania is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Romania. 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.

Management is unable to predict all developments in the economic environment which could have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company.



**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**3.1 Basis of preparation**

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

The preparation of financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

**New Accounting Pronouncements effective from 2009 onwards**

- (a) The Company applied the following standards and interpretations effective for periods beginning on or after 01 January 2009:

*IFRIC 11, IFRS 2 - Group and Treasury Share Transactions.* (IFRIC 11 as adopted by the EU is effective for annual periods beginning on or after 1 March 2008, with early adoption permitted). The interpretation contains guidelines on the following issues: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments. Adoption of the interpretation did not have any significant impact on the Company's financial statements.

*IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* (IFRIC 14 as adopted by the EU is effective for annual periods beginning on or after 31 December 2008, with early adoption permitted). The interpretation contains guidance on when refunds or reductions in future contributions may be regarded as available for the purposes of the asset ceiling test in IAS 19, *Employee Benefits*. Adoption of the interpretation did not have any significant impact on the Company's financial statements.

*IFRS 8, Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. This new standard did not have any significant effect on the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment* (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. This amendment is not relevant for the Company's financial statements.]

*IAS 23, Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The Company adopted the standard from 1 January 2009 and as a result capitalised an immaterial amount of interest.

*IAS 1, Presentation of Financial Statements* (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. As a result the Company presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on profit or loss.

*Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment* (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment is not relevant for the Company's financial statements.

*IFRIC 13, Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008 for financial statements prepared under IFRS; adopted by the EU with an effective date postponed to annual periods beginning after 31 December 2008; early adoption permitted). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation is not relevant for the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment* (effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. These amendments are not relevant for the Company's financial statements.

- *Improvements to International Financial Reporting Standards* (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. These amendments did not have any significant effect on the Company's financial statements.

*Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. These amendments did not have any significant effect on the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*New or revised standards and interpretations that are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods and which the Company has not early adopted*

*IFRIC 12, Service Concession Arrangements (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, with early adoption permitted).* The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. The Company will apply the interpretation from 1 January 2010 and is currently assessing the impact of the amended standard.

*IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).* The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company does not expect the amended standard to have any effect on the Company's financial statements.

*IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).* The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The standard is not expected to have an impact on the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*IFRIC 15, Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Company's operations as all of the Company's construction relates to property developed for the Company own use rather than with a view to sale.

*IFRIC 16, Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Company does not apply hedge accounting.

*Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement* (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Company's financial statements as the Company does not apply hedge accounting.

*IFRIC 17, Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*IFRS 1, First-time Adoption of International Financial Reporting Standards* (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Company is not a first-time adopter, so the revised standard does not have any effect on its financial statements.

*IFRIC 18, Transfers of Assets from Customers* (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Company's financial statements.

*Embedded Derivatives - Amendments to IFRIC 9 and IAS 39* (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

*Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The standard is not expected to apply to the Company's financial statements.

*Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment* (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Improvements to International Financial Reporting Standards* (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Company does not expect the amendments to have any material effect on its financial statements.

*New or Revised Standards & Interpretation not yet adopted by the European Union*

*IFRS 9, Financial Instruments* (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

*Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS* (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Company's financial statements.

*IAS 24, Related Party Disclosures* (amended November 2009, effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Company is currently assessing the impact of the amended standard on disclosures in its financial statements.

*IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Company is currently assessing the impact of the interpretation on its financial statements.

*Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Company is currently assessing the impact of the amended interpretation on its financial statements.



**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1* (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Company's financial statements.

*Improvements to International Financial Reporting Standards* (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Segment reporting**

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

**3.3 Foreign currency transactions**

*a) Functional currency*

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

*b) Transactions and balances*

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

At 31 December 2009, the exchange rate communicated by the National Bank of Romania, was US Dollar ("USD") 1 = RON 2.9361 (31 December 2008: USD 1 = RON 2.8342) and Euro ("EUR") 1 = RON 4.2282 (31 December 2008: EUR 1 = 3.9852).

**3.4 Accounting for the effect of hyperinflation**

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Company no longer applies the provisions of IAS 29.

Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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:

<u>Year</u>	<u>Movement in CPI</u>	<u>Indices</u>	<u>Conversion Factor</u>
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

**3.5 Intangible assets**

*Computer software*

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

**3.6 Property, plant and equipment**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

From 1 January 2009, interest on qualifying assets is capitalised as required by IAS 23; prior to this date, borrowing costs were expensed as incurred.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.7).

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

**3.7 Impairment of non-financial assets**

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

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.8 Public property assets**

In accordance with the Public Property Law 213/1998, gas transportation pipelines represent state property. Government Decision 491/1998, as confirmed by Government Decision 334/2000, specifies that fixed assets with a historical statutory gross book value of RON 482,787 and a restated net book value of RON 377,012 (at 31 December 2008 a statutory historical gross book value RON 482,787 and a restated net book value of RON 428,509), representing gas pipelines are to be administered by the Company. Therefore, the Company has the exclusive right to use these assets over the concession period and will return them to the State at the end of the period (see Note 8). The Company receives the majority of the benefits associated with the assets and is exposed to the majority of risks, including the requirement to maintain the network assets over a period which is at least equal to their remaining useful life, and the Company's financial performance is directly linked to the condition of the network system. Consequently, the Company has recognized these assets in its balance sheet, together with a corresponding reserve in equity. Accounting policies applied for these assets are the same as for the Company's other property, plant and equipment (Notes 3.7 and 3.8).

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. The royalty rate for the gas transportation pipelines is set by the National Agency for Mineral Resources. Starting from October 2007, the royalty was set at 10% of the revenues. The duration of the concession agreement is 30 years to 2032.

**3.9 Financial assets**

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

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

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

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the balance sheet (Note 3.12 and 3.14).

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(c) Available-for-sale financial assets*

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(d) Impairment of financial assets*

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

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 3.12.

**3.10 Derivative financial instruments and hedging activities**

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

**3.11 Inventories**

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

**3.12 Trade receivables**

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

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.13 Value added tax**

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

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

**3.14 Cash and cash equivalents**

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

**3.15 Shareholders' equity**

*Share capital*

Ordinary shares are classified as equity.

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

*Dividends*

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

**3.16 Borrowings**

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



**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**3.17 Leases**

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

**3.18 Current and deferred income tax**

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

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

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

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

**3.19 Trade and other payable**

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

**3.20 Deferred income**

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.21 Employee benefits**

The Company, in the normal course of business, makes payments to the Romanian State on behalf of its employees for social security, health and pension benefits. All employees of the Company are members of the Romanian State pension plan, which is a defined contribution plan. These payments are recognised within the income statement together with the salary expenses.

*Benefits on retirement*

Under the collective labour contract, the Company should pay to its employees at the time of their retirement an amount equal to a multiplier of their gross salary depending on the employment period in the gas industry, working conditions, etc. The Company has recorded a provision for such payments (see Note 22).

*Social costs*

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

*Free gas*

The Company is also committed through the collective labour agreement to provide current employees free of charge certain quantities of gas or the cash equivalent (see Note 27); these amounts are charged to "Other employee benefits" in the period in which they are incurred. The value of this gas is calculated at the regulated selling price applied to the agreed quantity as per collective labour contract.

*Profit-sharing and bonus plans*

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.22 Provisions**

Provisions for liabilities and charges are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Company has recognised provisions in respect of certain claims (Note 21).

**3.23 Revenue recognition**

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

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

*a) Revenue from services*

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

*b) Sale of goods*

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

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*c) Interest income*

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

*d) Dividend income*

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

*e) Mutual cancellation and barter transactions*

A relatively small portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of cancellation of balances either bilaterally or through a chain involving several companies.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**4. FINANCIAL RISK MANAGEMENT**

**Financial risk factors**

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

*(a) Market risk*

*(i) Foreign exchange risk*

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from recognised assets (Note 12) and liabilities, mainly long-term borrowings (Note 16).

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

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

	<u>2009</u>	<u>2008</u>
<i>Impact on profit and loss and on equity of:</i>		
US Dollar strengthening by 10%	1,081	1,102
US Dollar weakening by 10%	(1,758)	(5,527)
Euro strengthening by 10%	1,758	5,527
Euro weakening by 10%	(662)	(1,426)
	662	1,426

*(ii) Price risk*

The Company is exposed to commodity price risk related to gas acquired for its' own consumption. If price of gas would have been 5% higher/lower, net profit for the year would have been lower/higher by RON 6,253 (2008: RON 8,129).

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(iii) Cash flow and fair value interest rate risk

The Company is exposed to interest rate risk through its interest-bearing short and long-term borrowings, the majority of which are at variable rates. The Company is also exposed to interest rate risk on its bank deposits and investments in Government Bonds. The Company has not entered into any arrangements to mitigate this risk. For the average exposure during 2009, if interest rates had been 50 basis points lower/higher with all other variables held constant, profit for the year would have been RON 15 (2008: RON 979) higher/lower, as a result of lower interest expense on variable interest liabilities, partly offset by reductions in the interest received on bank deposits.

(b) *Credit risk*

Credit risk arises mainly from cash and cash equivalents and from trade receivables. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of bad debt provision, represents the maximum amount exposed to credit risk. The Company's credit risk is concentrated in its top 5 clients, which together amount to 75% of trade receivable balance at 31 December 2009 (2008: 79%). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

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

(c) *Liquidity risk*

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

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The maturity analysis of financial liabilities at 31 December 2009 is as follows:

	<u>Total amount</u>	<u>less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans and borrowings	108,746	64,060	44,686	-
Trade and other payables	<u>261,520</u>	<u>261,520</u>	-	-
	<u>370,266</u>	<u>325,580</u>	<u>44,686</u>	-

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

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

**Capital risk management**

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

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

During 2009, the Company's strategy, which was unchanged from 2008, was to keep the gearing ratio as low as possible in order to maintain a significant capacity to borrow funds for future investments if and when necessary. The net gearing ratio was nil at 31 December 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Total borrowings (Notes 16 and 20)	100,721	171,157
Less: cash and cash equivalents (Note 13)	<u>(196,566)</u>	<u>(301,587)</u>
Net cash position	<u>(95,845)</u>	<u>(130,430)</u>

**Fair value estimation**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

**Critical accounting estimates and assumptions**

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

**5.1 Tax legislation**

Romanian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31 ii).

**5.2 Useful lives of property, plant and equipment**

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

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

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

The management of the Company estimates that the useful lives and method of depreciation used (Note 3.6) reflect accurately the pattern in which the future economic benefits are expected to be consumed by the Company.

**5.3 Assumptions to determine amount of provision for retirement benefits**

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



**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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

**5.4 Accounting treatment for concession agreement**

As further described in Note 8, 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.

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

As described in Note 8, the Company pays royalties, computed as a percentage of revenues from operating the national gas transportation system's pipelines. These costs have been recognised as an expense rather than a deduction from revenues because they are not of the nature of a tax collected from customers and passed on to the State, due to the nature of the business and regulatory environment:

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

**5.6 Impairment of tangible and intangible assets**

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and slower economy, which in turn affects the level of demand for gas across businesses and industries. These factors indicate the need to review non-current assets for impairment losses. The management has performed an impairment test for fixed assets in the "domestic gas transportation" segment, and compared the carrying value of long term assets to the recoverable amount, the latter being calculated based on the present value of the expected cash flows generated by the assets. The cash flow projections were based on a growth rate of 6% (nominal) in 2010 to 2013, followed by an average annual growth rate of 5% (nominal) for operating revenues and operating costs for the remaining useful life of the assets. The earnings before interest and taxes were assumed constant as a ratio to revenues. The average cost of capital used in calculation is 10.3%. The results of the test prove that the value in use of non-current assets is in excess of carrying values; hence no impairment loss was needed.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**6. SEGMENT INFORMATION**

*Primary reporting format – business segments*

In 2009, the Company had two main business segments: domestic gas transportation and international gas transit.

**For the year ended 31 December 2009**

	<b>Domestic gas transportation</b>	<b>International gas transit</b>	<b>Unallocated</b>	<b>Total</b>
External sales	939,194	242,736	-	1,181,930
Other income	<u>5,701</u>	<u>-</u>	<u>26,359</u>	<u>32,060</u>
Total revenue	944,895	242,736	26,359	1,213,990
Depreciation	149,064	33,390	2,262	184,716
Operating expenses other than depreciation	<u>671,468</u>	<u>43,653</u>	<u>7,568</u>	<u>722,689</u>
Operating income	124,363	165,693	16,529	306,585
Net financial gain	-	-	-	17,653
Profit before tax	-	-	-	324,238
Taxation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(133,055)</u>
Net profit	-	-	-	191,183
Segment assets	2,614,868	551,649	268,272	3,434,789
Segment liabilities	354,175	166,775	154,156	675,106
Capital expenditure	148,943	2,911	7,874	159,728
Non-cash expenses other than depreciation	14,363	305	899	15,567

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**6. SEGMENT INFORMATION (CONTINUED)**

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

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

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

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

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

	<b>Domestic customers</b>	<b>Foreign customers</b>	<b>Total</b>
External sales	939,194	242,736	1,181,930
Other income	32,060	-	32,060

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 21,616 (2008: RON 19,505).

*Primary reporting format – business segments*

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

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**6. SEGMENT INFORMATION (CONTINUED)**

For the year ended 31 December 2008

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**6. SEGMENT INFORMATION (CONTINUED)**

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

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

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

**7. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Transportation system assets	Other fixed assets	Assets in course of construction	Total
<b>Year ended 31 December 2008</b>					
Opening net book value	271,336	2,193,692	82,905	102,074	2,650,007
Additions	690	14,386	48	213,998	229,122
Transfers	31,310	44,703	20,820	(96,833)	-
Disposals (Net book value)	(2,629)	(316)	(118)	-	(3,063)
Depreciation charge	<u>(14,967)</u>	<u>(135,994)</u>	<u>(17,116)</u>	-	<u>(168,077)</u>
Closing net book value	285,740	2,116,471	86,539	219,239	2,707,989
Cost	489,641	4,909,908	343,883	219,239	5,962,671
Accumulated depreciation	<u>203,901</u>	<u>2,793,437</u>	<u>257,344</u>	-	<u>3,254,682</u>
Net book value	<u>285,740</u>	<u>2,116,471</u>	<u>86,539</u>	<u>219,239</u>	<u>2,707,989</u>
<b>Year ended 31 December 2009</b>					
Opening net book value	285,740	2,116,471	86,539	219,239	2,707,989
Additions	-	3,343	315	375,401	379,059
Transfers	7,368	111,812	36,889	(156,069)	-
Disposals (Net book value)	(124)	(740)	(295)	-	(1,159)
Depreciation charge	<u>(15,619)</u>	<u>(137,872)</u>	<u>(22,012)</u>	-	<u>(175,503)</u>
Closing net book value	277,365	2,093,014	101,436	438,570	2,910,385
Cost	496,581	5,018,538	370,304	438,570	6,323,993
Accumulated depreciation	<u>219,216</u>	<u>2,925,524</u>	<u>268,868</u>	-	<u>3,413,608</u>
Net book value	<u>277,365</u>	<u>2,093,014</u>	<u>101,436</u>	<u>438,570</u>	<u>2,910,385</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

The gross book value of fully depreciated assets still in use is RON 1,673,987 (2008: RON 1,599,247).

*Public property assets*

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

	Year ended 31 December 2009	Year ended 31 December 2008
Opening net book value	428,509	481,660
Charge	(51,497)	(53,037)
Net book value of disposals	<u>-</u>	<u>(114)</u>
Closing net book value	<u>377,012</u>	<u>428,509</u>
Cost	2,640,698	2,640,698
Accumulated depreciation	<u>(2,263,686)</u>	<u>(2,212,189)</u>
Closing net book value	<u>377,012</u>	<u>428,509</u>

As detailed in Note 8, these assets are administrated by Transgaz SA. Public property assets can not be sold or disposed of by the Company.

In accordance with public property law (Law 213/1998) any new asset constructed by the Company which is part of the national gas transportation system 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 FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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**8. SERVICE CONCESSION AGREEMENT**

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

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

The main terms of the Concession Agreement are as follows:

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

The Concession Agreement does not include an automatic extension clause.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**9. INTANGIBLE ASSETS**

	Computer software	Intangible in progress	Total
Opening net book value	8,731	-	8,731
Additions	7,974	8,182	16,156
Disposals and transfers	(489)	(7,923)	(8,412)
Amortisation	<u>(6,397)</u>	<u>-</u>	<u>(6,397)</u>
Closing net book value	9,819	259	10,078
<b>At 31 December 2008</b>			
Cost	45,687	259	45,946
Accumulated amortisation	<u>35,868</u>	<u>-</u>	<u>35,868</u>
<b>Net book value</b>	<u>9,819</u>	<u>259</u>	<u>10,078</u>
Opening net book value	9,819	259	10,078
Additions	-	10,241	10,241
Transfers	6,495	(6,495)	-
Amortisation	<u>(9,213)</u>	<u>-</u>	<u>(9,213)</u>
Closing net book value	7,101	4,005	11,106
<b>At 31 December 2009</b>			
Cost	52,182	4,005	56,187
Accumulated depreciation	<u>45,081</u>	<u>-</u>	<u>45,081</u>
<b>Net book value</b>	<u>7,101</u>	<u>4,005</u>	<u>11,106</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**10. AVAILABLE FOR SALE FINANCIAL ASSETS**

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

Company	Activity	% Ownership	31 December 2009	31 December 2008
Resial SA	manufacturing	68.16	18,116	18,116
Mebis SA	manufacturing	17.47	6,462	6,462
Wirom Gas SA	gas distribution and supply	0.02	3	3
Nabucco Gas Pipeline International Gmbh	gas transportation	16.67	14,420	472
Less provision for impairment of investments in Resial and Mebis			(24,578)	(24,578)
			14,423	475

*Investment in Resial SA*

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

*Investment in Mebis SA*

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

*Investment in Nabucco Gas Pipeline International Gmbh*

Nabucco Gas Pipeline International Gmbh ("NIC") is a limited liability company, with headquarters in Vienna, Austria, established in order to undertake the construction of a gas pipeline from Turkey through Bulgaria, Romania and Hungary to Austria.

Transgaz participated with four other shareholders in the share capital of this company, each holding a participation of 20% of the share capital. In February 2008, the share capital of NIC was increased through the contribution of new shareholder, RWE Gas Midstream Germany. Therefore, each of the six shareholders owns a participation of 16,67% of the share capital.

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**11. INVENTORIES**

	31 December 2009	31 December 2008
Spare parts and materials	40,574	45,486
Provisions for slow moving inventories	<u>(5,697)</u>	<u>(5,124)</u>
	<u>34,877</u>	<u>40,362</u>

**12. TRADE AND OTHER RECEIVABLES**

	31 December 2009	31 December 2008
Trade receivables	329,488	312,957
Advances to suppliers	201	31
VAT recoverable	4,157	5,328
Loan to Resial SA	1,782	1,782
Other receivables	10,181	30,828
Provision for impairment of receivables	<u>(76,595)</u>	<u>(92,759)</u>
Provision for impairment of other loan to Resial SA	<u>(1,782)</u>	<u>(1,782)</u>
	<u>267,432</u>	<u>256,385</u>

As at 31 December 2009, RON 21,616 (31 December 2008: RON 19,505) of net trade and other receivables are denominated in foreign currency, 74% in USD (2008: 78%) and 26% in EUR (2008: 22%).

Included in trade receivables are balances from related parties of RON 56,026 (31 December 2008: RON 79,925) as presented in Note 28.

Trade receivables have been pledged in favour of banks as collateral for bank loans as described in Note 16. The total amount of pledged receivables as at 31 December 2009 is RON 60,761 (31 December 2008: RON 78,469).

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**12. TRADE AND OTHER RECEIVABLES (CONTINUED)**

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

	2009		2008	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Current and not impaired	184,448	14,539	153,163	36,187
Total current and not impaired	184,448	14,539	153,163	36,187
Past due but not impaired				
- less than 30 days overdue	35,935	-	28,807	-
- 30 to 90 days overdue	1,012	-	20,506	-
- over 90 days overdue	<u>31,498</u>	-	<u>17,722</u>	-
Total past due but not impaired	68,445	-	67,035	-
Individually determined to be impaired (gross)				
- less than 30 days overdue	852	-	822	-
- 30 to 90 days overdue	20	-	1,600	-
- 90 to 360 days overdue	12,260	-	7,004	-
- over 360 days overdue	<u>63,463</u>	<u>1,782</u>	<u>83,333</u>	<u>1,782</u>
Total individually impaired	76,595	1,782	92,759	1,782
Less impairment provision	<u>76,595</u>	<u>1,782</u>	<u>92,759</u>	<u>1,782</u>
Total	<u>252,893</u>	<u>14,539</u>	<u>220,198</u>	<u>36,187</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**13. CASH AND CASH EQUIVALENTS**

	31 December 2009	31 December 2008
Cash at bank in RON	180,231	213,276
Cash at bank in foreign currency	14,654	3,259
Other cash equivalents	<u>1,681</u>	<u>85,052</u>
	<u>196,566</u>	<u>301,587</u>

The weighted average effective interest rate on short term bank deposits was 15.85% at 31 December 2009 (31 December 2008: 8.39 %) and these deposits had an average maturity of 30 days.

**14. SHARE CAPITAL AND SHARE PREMIUM**

	Number of ordinary shares	Share capital	Share premium	Total
<b>Statutory</b>				
At 31 December 2008	<u>11,773,844</u>	<u>117,738</u>	<u>247,479</u>	<u>365,217</u>
At 31 December 2009	<u>11,773,844</u>	<u>117,738</u>	<u>247,479</u>	<u>365,217</u>
<b>IFRS</b>				
Hyperinflation adjustment to share capital cumulative to 31 December 2003	-	<u>441,419</u>	-	<u>441,419</u>
At 31 December 2009	-	<u>559,157</u>	<u>247,479</u>	<u>806,636</u>

The authorised number of ordinary shares in Transgaz SA is RON 11,773,844 (31 December 2008: RON 11,773,844) with a nominal value of RON 10 each. Each share carries one vote. The shareholders structure at 31 December 2009 is presented below:

	Number of ordinary shares	Statutory amount (RON)	Percentage (%)
Romanian State, represented by Ministry of Economy and Commerce („MEC”)	8,655,053	86,550,530	73.5109
Other shareholders	1,354,171	13,541,710	11.5015
Fondul „Proprietatea”	1,764,620	17,646,200	14.9876
	11,773,844	117,738,440	100.0000

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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**14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)**

There were no changes in shareholders structure in 2009.

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.

**15. PUBLIC PROPERTY RESERVE, LEGAL RESERVE AND RETAINED EARNINGS**

*Public property reserve*

A reserve corresponding to public property assets (Notes 3.8 and 5.4) was included as part of equity under the heading "Public Property Reserve" at the value of the respective assets restated for the inflation up to 1 January 2004.

*Legal reserve*

In accordance with Romanian legislation and its Articles of Incorporation, the Company has to transfer five percent of its profits per statutory books to a statutory reserve which can accumulate up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for distribution at 31 December 2009, amounted to RON 23,548 (31 December 2008: RON 23,548).

*Dividends distribution*

During year ended 31 December 2009, the Company has declared and distributed a dividend per share of RON 10.47 from the prior year profit (2008: RON 9.66 per share).

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**16. LONG TERM BORROWINGS**

*Non-current portion of long term borrowings*

	Currency	31 December 2009	31 December 2008
IBRD loan	USD	4,506	6,398
Gazprombank loans	USD	-	27,298
Efibanca loan	EUR	-	2,327
ABN Amro Bank loan	EUR	-	4,809
Unicredit Tiriac	RON	<u>37,063</u>	<u>58,242</u>
		<u>41,569</u>	<u>99,074</u>

*Current portion of long term borrowings:*

	Currency	31 December 2009	31 December 2008
IBRD loan	USD	2,123	1,905
Gazprombank loans	USD	28,277	37,372
Efibanca loan	EUR	2,470	5,215
ABN Amro Bank loan	EUR	5,103	6,413
Unicredit Tiriac	RON	<u>21,179</u>	<u>21,178</u>
		<u>59,152</u>	<u>72,083</u>

A description of the long term borrowing follows.

**IBRD loan**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**16. LONG TERM BORROWINGS (CONTINUED)**

The loan is denominated in USD (the balances at 31 December 2009 and 2008 were USD 2,258 thousand and USD 2,930 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 2009 was approximately 8.81% (2008: approximately 9.7%). Repayments are made twice a year. The principal and interest are repaid to the Ministry of Finance at least 15 days prior to the date of repayment by the Ministry of Finance to IBRD. Payments to Ministry of Finance may also be made in RON equivalent at the exchange rate at the date of payment plus a 5% refundable fee in order to protect the Ministry of Finance against foreign exchange losses and a 10% commission on the interest paid.

The loan is secured by a deposit pledged by the Company in favour of the Ministry of Finance. The deposit is equal to the following instalment to be repaid. As at 31 December 2009 the deposit amounts to USD 415,440 (31 December 2008: USD 400,000).

The maturity of the IBRD loan is set out bellow:

	<b>31 December 2009</b>	<b>31 December 2008</b>
Within 1 year	2,123	1,905
Between 1 and 2 years	2,281	2,049
Between 2 and 5 years	2,225	4,349
Over 5 years	—	—
	<u>6,629</u>	<u>8,303</u>

**Gazprombank loan**

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

*First loan*

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

The loan is repayable in monthly instalments and bears an interest rate of 0.5% per month for the outstanding balance. The balance of the loan as at 31 December 2009 is USD 4,204 thousand (31 December 2008: USD 9,247 thousand).

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

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**16. 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. The loan bears an interest rate of 1 month LIBOR + 2%. The balance as at 31 December 2009 is USD 5,427 thousand (31 December 2008: USD 13,568 thousand).

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

	31 December 2009	31 December 2008
Within 1 year	28,277	37,372
Between 1 and 2 years	-	27,298
Between 2 and 5 years	-	-
Over 5 years	-	-
	<u>28,277</u>	<u>64,670</u>

The loans are collateralised by receivables from Gazexport under the gas transport contracts concluded with the Company, as well as any other receivables from Gazexport, in this order. The amount of the pledged receivables as at 31 December 2009 is RON 15,184 (31 December 2008 RON 14,479).

**Efibanca loans**

The loans from Efibanca Spa, a company belonging to Banca Popolare di Lodi banking group, were contracted in June 2003, September 2004 and January 2005 to finance the acquisition of valves and related installation services from TYCO Valves&Controls Italia SRL and RMA Germany. The loans are denominated in EUR and bear an interest of 4.38%, 3.87% and 3.60% per annum, respectively. The repayment of each drawing is done in ten bi-annual instalments. The balance as at 31 December 2009 is EUR 584 thousand (31 December 2008: EUR 1,892 thousand).

The maturity of the Efibanca loans is set out bellow.

	31 December 2009	31 December 2008
Within 1 year	2,470	5,215
Between 1 and 2 years	-	2,327
Between 2 and 5 years	-	-
	<u>2,470</u>	<u>7,542</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**16. LONG TERM BORROWINGS (CONTINUED)**

**ABN AMRO Bank Loan**

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

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

The loan is collateralised by receivables in amount of RON 36,451 as at 31 December 2009 (2008: RON 11,945).

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

	Year ending 31 December 2009	Year ending 31 December 2008
Within 1 year	5,103	6,413
Between 1 and 2 years	-	4,809
Between 2 and 5 years	-	-
	<u>5,103</u>	<u>11,222</u>

**Unicredit Tiriac loan**

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

The maturity of the Unicredit loan is set out below:

	Year ending 31 December 2009	Year ending 31 December 2008
Within 1 year	21,179	21,178
Between 1 and 2 years	21,178	21,178
Between 2 and 5 years	<u>15,885</u>	<u>37,064</u>
	<u>58,242</u>	<u>79,420</u>

The loan is collateralised by receivables from E.ON Gaz SA, Interagro, Electrocentrale Galati and Termoelectrica SA as at 31 December 2009 in amount of RON 9,126 (2008: RON 51,657).

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**16. LONG TERM BORROWINGS (CONTINUED)**

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

	Year ending 31 December 2009 (%)	Year ending 31 December 2008 (%)
Long term loans in USD	4.5	5.8
Long term loans in EUR	3.5	5.5
Long term loans in RON	12.9	11.4

**Fair value**

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

	Carrying amounts		Fair values	
	31 December 2009	2008	31 December 2009	2008
IBRD	6,629	8,303	6,728	8,462
Gazprom	28,277	64,670	28,237	64,902
ABN(RBS)	5,103	11,222	5,197	11,654
Efibanca	2,470	7,542	2,481	7,495
Unicredit	<u>58,242</u>	<u>79,420</u>	<u>58,463</u>	<u>76,522</u>
	<u>100,721</u>	<u>171,157</u>	<u>101,106</u>	<u>169,035</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.

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

	31 December 2009	31 December 2008
Variable interest rate	85,909	137,404
Fixed interest rate	<u>14,812</u>	<u>33,753</u>
	<u>100,721</u>	<u>171,157</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

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**16. LONG TERM BORROWINGS (CONTINUED)**

The variable interest rate can be further analysed as follows:

	<b>31 December 2009</b>	<b>31 December 2008</b>
Reset within 6 months or less	<u>85,909</u>	<u>129,101</u>

The Company has following undrawn facilities:

	<b>31 December 2009</b>	<b>31 December 2008</b>
RON	<u>45,000</u>	<u>45,000</u>

**17. 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 FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**18. INCOME TAX**

**Income tax expense/(credit)**

	Year ending 31 December 2009 (%)	Year ending 31 December 2008 (%)
Income tax expense - current	62,649	46,136
Deferred tax – origination and reversal of temporary differences	<u>70,406</u>	<u>(94,457)</u>
Income tax expense / (credit) as reported	<u>133,055</u>	<u>(48,321)</u>

In 2009 and 2008, the Company accrued income taxes at the rate of 16% on profits computed in accordance with the Romanian tax legislation. Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	Year ending 31 December 2009 (%)	Year ending 31 December 2008 (%)
Profit before taxation	324,238	194,376
Theoretical tax charge at statutory rate of 16% (2008: 16%)	51,878	31,100
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	(3,221)	(94,261)
Non-deductible expenses	<u>84,398</u>	<u>14,840</u>
Income tax expense / (credit) as reported	<u>133,055</u>	<u>(48,321)</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**18. INCOME TAX (CONTINUED)**

**Deferred tax**

Deferred tax assets/liabilities are measured at the enacted statutory effective tax rate of 16% as at 31 December 2009 (31 December 2008: 16%).  
Deferred tax assets and liabilities and deferred tax expense/(income) in the income statement are attributable to the following items:

	31 December 2009	Movement	31 December 2008	Movement	31 December 2007
<b>Deferred tax liabilities</b>					
Restatement of property, plant and equipment	91,078	67,883	23,195	(93,852)	117,047
Trade receivables	<u>2,762</u>	<u>2,762</u>	-	-	-
<b>Deferred tax assets</b>					
Accruals	(1,249)	(46)	(1,203)	(240)	(963)
Adjustments to inventories	-	(11)	11	-	11
Provision for employee benefits	<u>(3,727)</u>	<u>(182)</u>	<u>(3,545)</u>	<u>(365)</u>	<u>(3,180)</u>
	<u>(4,976)</u>	<u>(239)</u>	<u>(4,737)</u>	<u>(605)</u>	<u>(4,132)</u>
Net deferred tax liability	<u>88,864</u>	<u>70,406</u>	<u>18,458</u>	<u>(94,457)</u>	<u>112,915</u>

The reduction in deferred tax in 2008 in respect of temporary differences in property, plant and equipment balances, was due to a statutory revaluation carried out as of 31 December 2008; this revaluation brought statutory (and tax) values closer to IFRS amounts. The increase in deferred tax in 2009 in respect of temporary differences in property, plant and equipment balances, was due to a change in tax legislation in 2009, following which certain revaluation amounts were considered non-deductible for tax purposes.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**18. INCOME TAX (CONTINUED)**

The amounts shown in the balance sheet include the following:

	<b>31 December 2009</b>	<b>31 December 2008</b>
Deferred tax liabilities to be settled after more than 12 months as reported	<u>88,864</u>	<u>18,458</u>

**19. TRADE AND OTHER PAYABLES**

	<b>31 December 2009</b>	<b>31 December 2008</b>
Trade payables	74,521	107,075
Suppliers of fixed assets	37,943	33,834
Dividends	4,449	3,678
Payable to Ministry of Economy and Commerce (additional distribution years 2000 - 2003)	51,718	51,718
Other taxes	51,388	46,395
Employees payable	17,160	15,686
VAT payable	21,117	7,309
Other liabilities	<u>3,224</u>	<u>5,128</u>
	<u>261,520</u>	<u>270,823</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. Being payable to the sole shareholder at the time, in substance they represented an additional distribution to shareholders. The majority shareholder of the Company has informed the management that the payment of these penalties can be deferred until further notice, allowing the Company use of the respective amount for continuing to develop the gas transportation network.

As at 31 December 2009, RON 3,500 (31 December 2008: RON 525) of trade and other payables are denominated in foreign currency, mainly EUR and USD.

Included in trade payables are balances due to related parties of RON 58,576 (31 December 2008: RON 78,325), as presented in Note 28.

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**20. SHORT TERM BORROWINGS**

Short-term borrowings are analyzed as follows:

	31 December 2009	31 December 2008
Current portion of long term loans (Note 16)	<u>59,152</u>	<u>72,083</u>

*BRD overdraft*

The BRD overdraft agreement was concluded in 2004 with a RON 20,000 ceiling. It was subsequently extended until 30 August 2010 and its ceiling increased to RON 45,000. The facility is secured with a pledge on receivables from the contract with Azomures in amount of RON 6,620 as at 31 December 2009 (RON 388 as at 31 December 2008).

Interest rate is 1 year ROBOR + 0.9% p.a. (2008: 1 year ROBOR + 0.4% p.a.).

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

**21. PROVISIONS FOR LIABILITIES AND CHARGES**

	31 December 2009	31 December 2008
<i>Current provision</i>		
Provision for warranty	<u>185</u>	<u>-</u>

The provision was recorded in respect of a warranty granted to clients.

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**22. PROVISION FOR EMPLOYEE BENEFITS**

**Employee benefits**

Under the collective labour contract, the Company is required pay its employees at the time of their retirement a lump-sum amount equal to a multiplier of their gross salary depending on the employment period in the gas industry, working conditions, etc. The present value of the provision was determined using the Projected Unit Credit Method. The following assumptions were used in the computation of the provision: a salary indexation rate related to the productivity increase rate, a staff turnover based on historical data and the time frame when the benefits are to be paid. The provision has been discounted to its present value by applying a discount factor based on the risk free interest rate (i.e. interest rate on government bonds issued in October 2009). Substantially all the amounts are payable in over one year.

The principal actuarial assumptions used for the computation at 31 December 2009 were as follows:

- a) Discount rate:
  - For 2010 was considered 9.98%, being the 5 years RON denominated government bond issued in October 2009.
  - For the following years was considered a decreasing trend and used an extrapolation along the real yield curve.
- b) Inflation rate was estimated to be 4% p.a. for the period 2010-2011, and following a decreasing pattern afterwards.
- c) Salary increase rate – for 2010 no increase was considered. For subsequent years a salary increase rate of 3% over the consumer price index was estimated.
- d) The mortality rate during employment was based on the Romanian Mortality Table issued by the Romanian National Institute of statistics.

**Movement in provision for employee benefits**

	<b>Provision</b>
1 January 2008	19,878
Unwinding of the discount	1,801
Increase of provision	<u>477</u>
31 December 2008	<u>22,156</u>
Unwinding of the discount	2,052
Decrease of provision	<u>(915)</u>
31 December 2009	<u>23,293</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**23. OTHER INCOME**

	Year ending 31 December 2009	Year ending 31 December 2008
Income from penalties for late payment charged to customers	17,521	4,558
Revenues from connection fees	3,976	3,332
Revenues from rent	2,139	1,596
Revenues from sale of scrap materials	1,742	3,283
Revenues from design services	2,461	358
Other operating revenues	<u>4,221</u>	<u>3,176</u>
	<u>32,060</u>	<u>16,303</u>

**24. OTHER OPERATING EXPENSES**

	Year ending 31 December 2009	Year ending 31 December 2008
Sponsorship expenses	3,477	3,459
Utilities	5,160	4,562
Insurance premiums	5,191	1,266
Telecom	4,043	3,355
Loss on disposal of fixed assets, net	1,067	2,295
Bank and other commissions	876	755
Rent	933	934
Bad debts written off	28	573
Impairment loss / (gain) on current assets	(15,591)	(3,698)
Changes in inventory of finished goods and work in progress	(3,694)	(3,404)
Research expenses	1,610	3,142
Marketing and protocol expenses	2,603	2,392
Other	<u>8,809</u>	<u>6,609</u>
Total	<u>14,512</u>	<u>22,240</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
 (expressed in RON thousand, unless otherwise stated)

**25. NET FINANCIAL INCOME/ (EXPENSE)**

	Year ending 31 December 2009	Year ending 31 December 2008
Foreign exchange gains	3,618	6,502
Foreign exchange losses	(9,674)	(16,785)
Interest income	34,718	31,066
Interest expense	(9,074)	(16,585)
Unwinding of the discount provision for employee benefit	(2,052)	(1,801)
Other finance income	<u>117</u>	<u>-</u>
	<u>17,653</u>	<u>2,397</u>

**26. CASH GENERATED FROM OPERATIONS**

	Year ending 31 December 2009	Year ending 31 December 2008
Profit before tax	324,238	194,376
<i>Adjustments for:</i>		
Depreciation and amortisation	184,716	174,474
(Profit) / Loss on disposal of fixed assets	1,067	2,295
(Release) / Provisions for liabilities and charges	185	(1,278)
Provision for employee benefits	1,137	2,278
(Release) / Provisions for impairment of receivables	(16,164)	(5,724)
Inventories provisions	573	2,027
Bad debts written off	28	573
Interest expense	9,074	16,585
Interest income	(34,718)	(31,066)
Effect of exchange rate changes on non-operating items	<u>1,664</u>	<u>11,250</u>
Operating profit before working capital changes	471,800	365,790
(Increase) / decrease in trade and other receivables	(42,892)	(116,805)
Decrease / (increase) in inventories	4,908	(11,017)
Increase / (decrease) in trade and other payables	<u>30,336</u>	<u>41,166</u>
Cash generated from operations	<u>464,152</u>	<u>279,134</u>

**27. OTHER EMPLOYEE BENEFITS**

According to past collective labour agreements, employees were entitled to receive free of charge 6,500 cubic meters of gas a year per employee (or the cash equivalent computed at monthly medium domestic price per cubic meter).

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**28. 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 entities in which the Romanian State has significant influence and are thus presented as entities under common control.

During the years ended 31 December 2009 and 31 December 2008 the following transactions were carried out with related parties and the following balances were payable/receivable at the respective dates:

**i) Revenues from related parties – services provided and gas sold (VAT excluded)**

	Relationship	31 December 2009	31 December 2008
SNGN Romgaz	Entity under common control	2,877	3,308
Termoelectrica	Entity under common control	11,194	12,454
Electrocentrale Deva SA	Entity under common control	8,312	10,366
Electrocentrale București SA	Entity under common control	124,247	142,658
Electrocentrale Galați SA	Entity under common control	22,739	21,849
Grup Dezvoltare Retele SA	Entity under common control	<u>980</u>	<u>830</u>
		<u>170,349</u>	<u>191,464</u>

**ii) Receivables from related parties**

	Relationship	31 December 2009	31 December 2008
SNGN Romgaz	Entity under common control	14	482
Termoelectrica(net of provision)	Entity under common control	1,903	1,321
Electrocentrale Deva SA	Entity under common control	820	1,879
Electrocentrale București SA	Entity under common control	48,906	71,786
Electrocentrale Galați SA	Entity under common control	4,177	4,274
Grup Dezvoltare Retele SA	Entity under common control	<u>206</u>	<u>183</u>
		<u>56,026</u>	<u>79,925</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
(expressed in RON thousand, unless otherwise stated)

**28. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**iii) Acquisitions of gas from related parties (excluding VAT)**

	Relationship	31 December 2009	31 December 2008
SNGN Romgaz	Entity under common control	<u>148,877</u>	<u>193,473</u>

**iv) Acquisitions of services from related parties (other services – excluding VAT)**

	Relationship	31 December 2009	31 December 2008
SNGN Romgaz	Entity under common control	39	49
Electrocentrale Deva SA	Entity under common control	21	25
Nabucco Company			
Electrocentrale București SA	Entity under common control	11	-
Pipeline Study GmbH	Entity under common control	<u>-</u>	<u>-</u>
		<u>71</u>	<u>74</u>

**v) Payables to related parties**

	Relationship	31 December 2009	31 December 2008
SNGN Romgaz	Entity under common control	<u>58,576</u>	<u>78,325</u>

**vi) Payables to related parties (other services)**

	Relationship	31 December 2009	31 December 2008
SNGN Romgaz	Entity under common control	1	8
Electrocentrale București SA	Entity under common control	1	-
Electrocentrale Deva SA	Entity under common control	<u>2</u>	<u>10</u>
		<u>4</u>	<u>18</u>

**vii) Key management compensation**

	Year ending 31 December 2009	Year ending 31 December 2008
Salaries paid to key management	<u>3,807</u>	<u>3,595</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**28. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**viii) Loan to related party**

	Year ending 31 December 2009	Year ending 31 December 2008
Loan to Resial SA	<u>1,782</u>	<u>1,782</u>
less provision for impairment of loan	1,782	1,782
	<u>—</u>	<u>—</u>

**29. EARNINGS PER SHARE**

The Company's shares are listed under the first category of the Bucharest Stock Exchange. Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ending 31 December 2009	Year ending 31 December 2008
Profit/(loss) attributable to equity holders of the Company	191,183	242,697
Weighted average to number of shares	11,773,844	11,773,844
Basic (loss)/earnings per share (RON per share)	16.24	20.61

**30. SIGNIFICANT NON-CASH TRANSACTIONS**

*Mutual cancellations*

Approximately 4% of accounts receivable were settled via non-cash transactions during the year ended 31 December 2009 (2008: 3%). The transactions represent mainly sale of products and services in exchange for raw materials and services or cancellation of mutual balances with customers and suppliers within the operating cycle.

*Barter transactions*

There were no barter transactions during 2008 and 2009.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**31. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**

i) Commitments

The Concession Agreement specifies that, at the end of the Agreement, ANRM has the right to receive back, free of any charge or encumbrance, property, plant and equipment with an estimated gross book value of RON 2,808,987, representing all public property assets existing at the time when the agreement was signed and all the investments which are done to the gas pipeline system, according to the investments programme set out in the Concession Agreement. The Company also has other obligations in respect of the concession agreement as described in Note 8.

ii) Taxation

The Romanian taxation system has recently 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 2008, same for 2009). 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.

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 3rd 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 31 December 2009 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

From time to time, claims against the Company are received. On the basis of its own estimates and both internal and external professional advice the Company's management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements and they are not aware of any circumstances which may give rise to a potential material liability in this respect.

**NOTES TO THE FINANCIAL STATEMENTS**  
**(expressed in RON thousand, unless otherwise stated)**

**31. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)**

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.

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

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

**32. SUBSEQUENT EVENTS**

**Dividends**

In April 2010 the Company declared dividends of RON 13.02 per share.

**Capital expenditure**

In accordance with the European Commission Decision dated 4 March 2010, 43 major projects which qualify for EU funding were approved in energy sector.

The Company participates in the following projects:

- the project of connecting the national system of gas transportation with the Hungarian system, the Szeged – Arad pipeline. The total amount of co-finance is EUR 16.6 million out of which Romania will receive 8.3 million;
- the project of connecting the national system of gas transportation with the Bulgarian system, the Giurgiu – Ruse pipeline. The total amount of co-finance is EUR 8.9 million to be divided between the participants;
- the project for infrastructure and equipment enabling the reversal of gas flow in case of brief disruptions of supply. The total amount allocated to Romania is EURO 1.5 million.