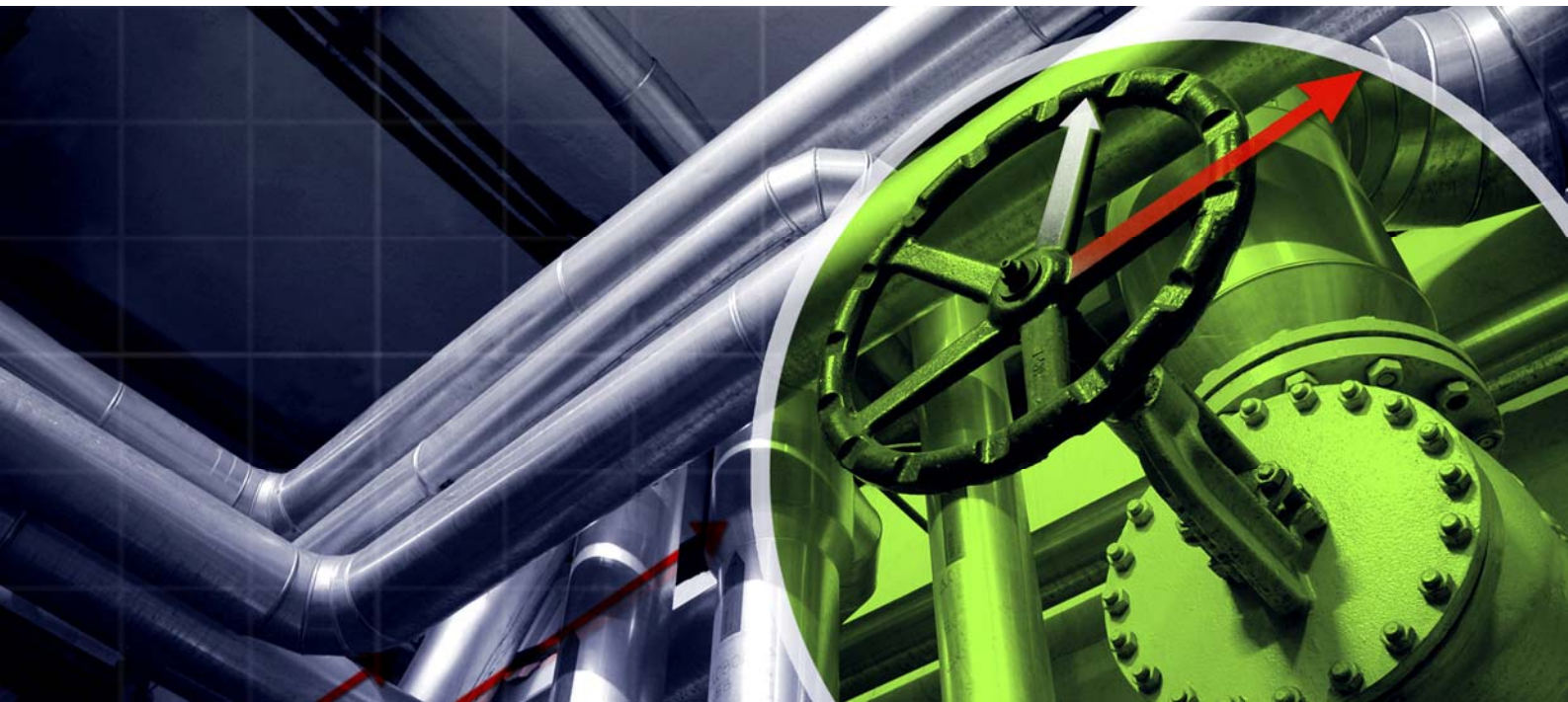


IPO Report SNTGN Transgaz



November 2007

Transgaz IPO



SUMMARY

Sector	Utilities
Industry	Natural gas
IPO Price	RON 191.92 /share
Target Price	RON 265.55 /share

Notes: This report is published by SSIF Intercapital Invest SA. Intercapital Invest is a member of the distribution group in the IPO of Transgaz. The technical advisor of the IPO, the Romanian-American investment fund, is a majority shareholder of Intercapital Invest.

All figures in this report are presented in local currency (RON). Exchange rate for 19 Nov, 2007: 3.48 RON/EUR

The Transgaz Initial Public Offering is part of the Romanian programme "A strong market – development of the local capital market", which suggested terms and measures for the stock market listing of some of the companies belonging to the Romanian State portfolio. Transgaz is the second state-owned company in the programme for which an initial public offering is initiated, following the listing of Transelectrica, the national electricity carrier. In its own initial public offering, Transgaz issues a number of 1,177,384 shares, representing 10% of the issuer's share capital (post-IPO).

Number of issued shares	1,177,384
Percent of existing share capital	11.33%
Percentage of the share capital after the IPO	10.00%
Share capital before the IPO	RON 103,888,880
Number of shares before the IPO	10,388,888
Share capital after the IPO	RON 117,738,440
Number of shares after the IPO	11,773,844
Par value	RON 10
IPO price	RON 191,92 /share
Total value issued	RON 225,963,537.28
Subscription period	Nov. 26 - Dec. 7, 2007
Manager	Raiffeisen Capital&Investment
Distribution group	Intercapital Invest; Raiffeisen Bank

GENERAL COMPANY INFORMATION

Issuer	SNTGN Transgaz SA
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E-mail	comunicare.imagine@transgaz.ro
Website	www.transgaz.ro
Fiscal code	13068733
CEO	Turdean Nicolae

Before the share capital increase for the IPO, the Romanian Ministry of Economy and Finance was the main shareholder of Transgaz, with a holding of 85.01% of the share capital, while the Proprietatea Fund held 14.98% of shares. For the IPO capital increase of Transgaz, the State gave up its subscription right. The total number of shares that will increase the share capital of Transgaz after the closing of the IPO amounts to 1,384,956, out of which 205,572 are shares allocated to the Proprietatea Fund (the Fund did not give up its subscription right in the increase), while 1,177,384 are publicly offered shares, representing 10% of the increased share capital after the IPO. Thus, the Proprietatea Fund will maintain its holding in the share capital of Transgaz, while the state will decrease its holding to 75.01% of the share capital after the IPO.

Shares can be subscribed in the IPO both at the manager's headquarters and at offices of the distribution group. The offer is divided into two parts, namely: the Large Subscriptions part, representing 60% of the total number of shares offered, and the Small Subscriptions part, representing 40% of the total number of shares offered. In the small subscriptions part, subscriptions between RON 2,000 and RON 500,000 will be accepted, while in the large subscription part only subscriptions larger than RON 500,000 will be accepted.

The allocation is "pro-rata", both for the large subscriptions part and for the small subscriptions part. If one of the parts is oversubscribed and the other is undersubscribed, there will be transfers between parts. In the case of oversubscription, the subscribers will be repaid the value of the subscribed and not allocated shares, in maximum ten business days from the date of closing of the offer.

The funds pooled in the IPO will support the company's investment plans in 2008.

The funds pooled as a result of this IPO will be used to support the investment plan of Transgaz. The company's minimal investment plan for 2007-2008 sums up total investments of RON 1,024 million. These include investments for NTS (National Transport System for natural gas) – namely 45% of the total, investments in modernising the installations and equipment relating to NTS - 17% of the total, and in works of rehabilitation and increase of the operation safety of the natural gas transport pipelines. The amounts pooled will pay for the investments programmed for 2008, their estimated value being of RON 273.7 million.

The Transgaz initial public offering will be the largest in Romania in terms of the total value issued.

Compared to other initial public offerings having taken place so far in Romania, the Transgaz IPO will be the largest in terms of total value offered for sale, namely approx. RON 225.96 million, being 80% larger than the total IPO value of CNTEE Transelectrica. Judging by the IPO issue price, the total capitalisation of Transgaz is of RON 2,259.63 million and, after listing, the issuer will be ranked among the top 10 Bucharest Stock Exchange (BSE) listed companies. The table below shows the main features of other initial public offerings that took place in Romania.

	IPO value— million RON	P/E (with IPO price)	% return in the first day of trading compared to IPO price	Subscription level (%)
MJ Maillis	3.9	33.60	16%	117%
International Leasing	0.3	10.00	-7%	100%
SSIF Brokter Cluj	9.0	8.30	159%	287%
Vrancart Adjud	17.5	13.00	10%	128%
Flamingo Int.	45.0	13.70	5%	322%
Transelectrica	123.1	9.71	36%	505%
Alumil ROM Industry	28.75	10.19	95%	1,647%
Transgaz	225.96	12.16	-	-

For further information regarding Transgaz and the company's initial public offering, please read the prospectus available on the English version of the www.intercapital.ro webpage (*Latest News Section*).

► **Issuer and Industry Operations Overview**

The main business line of Transgaz is the transport of natural gas, a regulated activity because it is a natural monopoly.

The main operations of Transgaz consist in: operating of the National Transport System (SNT) of natural gas, thus ensuring transportation of natural gas; international transit of natural gas on the Romanian territory; dispatching of natural gas supply networks and systems; delivering natural gas which represents the value of transit services for international transport; research and design for the transport operations. Natural gas transport in Romania is a regulated operation because it is a monopoly.

The gas industry in Romania is divided between: producers; companies operating the storage systems; transporters; distributors, suppliers; eligible consumers; operator of the transit system; importers.

Romania has the largest natural gas market in Central Europe. The natural gas industry has a complex structure, consisting in: producers (SNGN Romgaz, Petrom, Amromco Energy LLC New York); companies operating the storage systems (SNGN Romgaz SA, Depomures, Amgaz); transporter (SNTGN Transgaz); distributors (Distrigaz Sud, E.ON Gaz Romania, Petrom, Congaz, etc.); suppliers (Distrigaz Sud, Distrigaz Nord, SNTGN Transgaz, Petrom, SNGN Romgaz, Congaz, Amromco Energy, LLC New York, Depomures, etc.); eligible consumers – roughly 329 in number; operator of the transit system (SNTGN Transgaz) and importers (Distrigaz Sud, E.ON Gaz Romania, Termoelectrica, Wirom, etc.).

Transgaz is one of the five companies resulted from the splitting up of Romania's SNGN Romgaz. The other companies are Distrigaz Sud, Distrigaz Nord, Expogaz Medias and Depogaz Ploiesti (the last two merged in 2001 creating a new company named SNGN Romgaz – operating in the field of

recovery, production and underground storage of natural gas.) As a result of the splitting up, Transgaz ensures an organised environment for the equitable and undiscriminating allocation of natural gas, both from domestic production and from import. In order to fulfil this task, Transgaz establishes the percentage of quantity quotas of the mix between domestic and imported natural gas for the licensed suppliers/distributors, as well as for the eligible consumers, it monitors on a daily basis the purchases/consumption of natural gas from domestic production/import, fills in the monthly report for acquisitions of domestic and imported natural gas for each eligible consumer, and sends to the latter the import/total consumption ratio figures, for invoicing purposes.

The natural gas market underwent a significant transformation process during the last years, due to the restructuring and development of the sector. In order to create a competitive market, the complete liberalisation of the natural gas market was established, so that consumers could choose their preferred supplier. The principles underlying the market operations take into account: the promotion and establishment of competition on the natural gas market; full freedom of eligible consumers to choose the suppliers with whom they will sign negotiated contracts for buying and selling of natural gas; free access to the natural gas transport, underground storage and distribution systems for the players on the natural gas market; the obligation to ensure the public services of natural gas transport, underground storage and distribution; offering a non-discriminatory treatment to all participants.

The natural gas transport operation (except the transit operation), is part of the regulated segment of the natural gas market in Romania, where the prices and fees system is established by the Regulating Authority.

Currently, the complete liberalisation of the natural gas market requires additional legislation which should introduce the concepts necessary to clarify the situation of the captive consumers' category. Until these concepts will be enforced, the natural gas market will consist in two segments, namely: the competitive segment (where prices are formed freely based on offer and demand) and the regulated segment (price is regulated). The natural gas transport operation (except transit), is a part of the regulated segment of the natural gas market in Romania, where the prices and fees system is established by the Regulating Authority. According to the Authority, the real degree of retail market opening (the weight of consumption by eligible consumers that have changed the supplier or have renegotiated their contractual terms regarding total consumption figures) was of 57.43% in August, compared to 52.8% in January 2007.

Transgaz is the technical operator for the state-owned National Transport System (NTS) for natural gas, and thus enjoys a strategic importance. The company is responsible for the functioning of the NTS as well as for its quality, safety, economic efficiency and environment protection. The total length of the operated pipelines is of 11,757 km, with diameters between 6 and 40 inches, and of 562 km, with diameters between 40 and 48 inches. The NTS also comprises 2 measurement stations for imported natural gas, 159 measurement panels for domestic natural gas; 6 natural gas compression stations; 21 technology nodes, 20 valve control stations, 22 interconnections, 945 adjustment and measurement stations, 661 gas odorising stations, 881 cathodic protection stations. The number of main pipelines franchised to Transgaz and forming the NTS is 690.

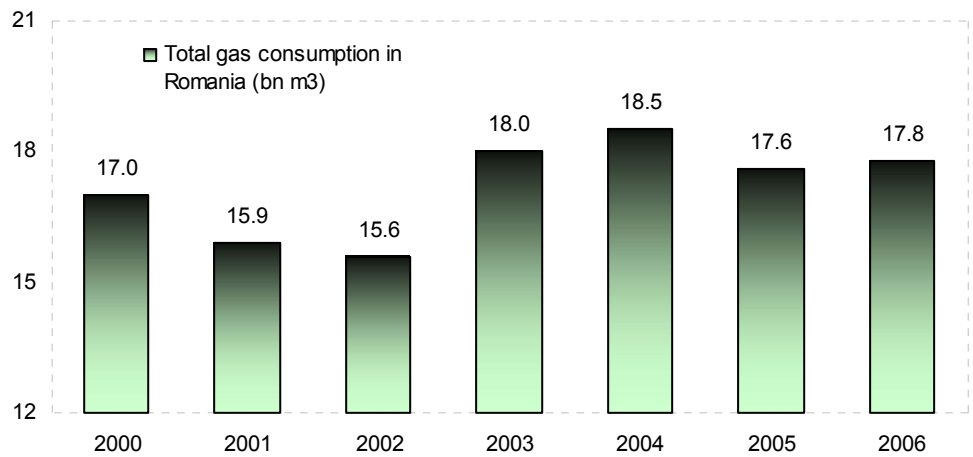
Currently, approximately 8,400 km (68.5%) of the total network length is over 25 years old. As transport operator of the NTS, Transgaz has no right to engage, directly or indirectly, in operations of recovery, extraction, distribution and delivery of natural gas to consumers, including acting as shareholder in companies that have such operations.

Transgaz ensures a non-discriminatory access to the National Transport System for natural gas (NTS) for any company that requests it. The issuer operates a natural monopoly, NTS, being the only company holding a natural gas transportation licence in Romania. Thus, on the transport market there is no competition issue, there is only the problem of regulating the market in such a way that will allow covering the operation costs and financing the investment programme, which should upgrade the NTS to European standards.

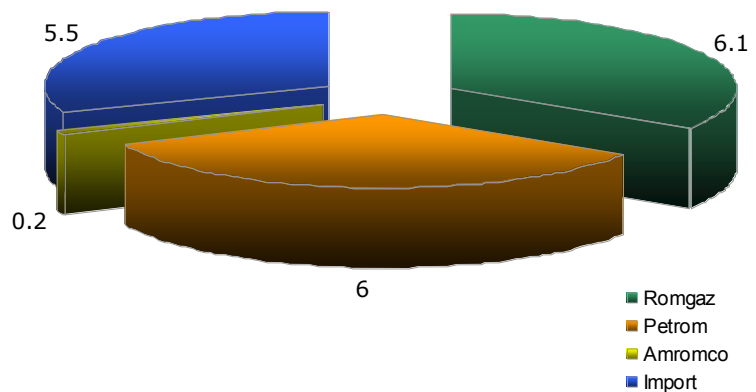
The NTS operating right was given to the issuer by ANRM (or NARM – National Agency for Mineral Resources), on the basis of a Franchise Agreement signed for a period of 30 years (in force until 2032) and of a Transport Licence valid for a period of 15 years and granted by the Regulating Authority. For the use of the main pipelines and additional equipment owned by the Romanian state, Transgaz pays a royalty of 5% of the income from transport and transit operations, by the end of 2006 this representing 5.57% of the total operating expenses.

In 2006, the natural gas consumption in Romania was of 17.8 bn m³, out of which the internal production amounted to 69% (12.3 bn m³), and imports to 31% (5.5 bn m³).

The total consumption increased in 2006, while in 2005 it amounted to 17.6 bn m³. The graph below shows the evolution of total natural gas consumption in Romania during 2000-2006.



Natural gas consumption structure (bn m3) - 2006



The two tables below show the evolution of natural gas transported through NTS, by their source, between 2003-2006, the evolution of the total natural gas consumption in Romania and the forecast of the domestic natural gas consumption according to the Romanian Energy Strategy for 2007-2020.

billion m3	2003	2004	2005	2006
Romgaz and other domestic producers	6.7	6.2	6.8	7.0
Petrom	4.0	4.4	4.3	3.1
Import	5.4	5.1	5.3	5.1
Total transported gas NTS	16.1	15.7	16.4	15.2
Total domestic gas consumption	n/a	18.5	17.6	17.2

billion m3	2007	2008	2009	2010	2011	2012	2013
Import	6.1	6.6	7.0	7.2	7.5	7.8	8.0
Domestic production	11.7	11.3	11.0	10.9	10.8	10.2	10.6
Total	17.8	17.9	18.0	18.1	18.3	18.0	18.6

Transport operations consist in the supply of natural gas from the producers/importers to the distributors/industrial consumers or to underground storage facilities. These operations have the highest weight in the total income registered by the issuer. In 2006 they represented 68.54% of the total. The income obtained from gas transport operations is regulated (its calculation is detailed in the "Financial Results" section of this report). The prices for natural gas transport operations are regulated and have two components: A fee for transport capacity reservation (the fixed component); and a fee for the volumetric component (variable fee), depending on the transported quantities.

The natural gas transit consists in transport on the Romanian territory, with or without transshipment, through the NTS or other dedicated main pipelines, of the natural gas originating from another state and meant for a third state. The organization of the transit service through dedicated main pipelines is regulated by international agreements, the transit fee being negotiated between Transgaz and the service recipient - in the case of Transgaz, with Bulgargaz and Gazprom Export. Transgaz allows thus the transport of natural gas from Russia to Bulgaria (through a 183.5 km pipeline) and Turkey, Greece and two other countries by means of two pipes, one with a length of 186.3 km and the other with a length of 181.94 km.

The transit fee is established on a commercial basis as an amount for each 1000 m³ transited through 100 km of pipe, or as a global amount. The volume of natural gas transited by Transgaz was of 26,100 million m³ in 2004, 26,300 million m³ in 2005 and 23,670 million m³ in 2006. For 2007 the total ordered capacity is 23,770 million m³ of natural gas.

An important project for Transgaz, related to its transit operations, is the Nabucco project. Nabucco's purpose is to connect the European markets to the natural gas reserves available in the Caspian Sea and in the Middle East. There are five companies involved in the project, as follows: BOTAS from Turkey, Bulgargaz from Bulgaria, Transgaz from Romania, Mol from Hungary and OMV Erdgas from Austria. The starting point of the pipes would be the borders of Turkey with Georgia and Iran, while the final point should be Baumgarten in Austria (a collecting point for Russian gas tran-

sited to Western Europe). The project represents a priority for the European Union that finances 50% of the value, the rest being financed from funds belonging to the participating companies.

The estimated length of the pipeline amounts to 3,282 km, 457 km of which will transit the Romanian territory. The Nabucco project originated in the high reliance of Europe on outside energy sources and especially on Russian gas; forecasts show the increase in the degree of external reliance, with up to 70% until 2030 (30% from Russian natural gas). The implementation of the Nabucco project represents a very high potential of income and profit for Transgaz, taking into account the fact that the issuer's highest profitability comes from transit operations; unfortunately, the implementation of the project is delayed because of various difficulties.

The issuer holds 20% of the project company, Nabucco Pipeline International GMBH. The total investment planned by Transgaz for the Nabucco project in 2007-2013 is of RON 752 million, but this estimation will probably have to be revised.

A different project similar to Nabucco is the South Stream project. This project is financed 50% by the Italian group ENI and 50% by Gazprom, and is planned to cross the Black Sea 900 km to Bulgaria, subsequently transiting several countries. Romania, as a country, is not included in this project.

Another Transgaz operation is the delivery of natural gas, ensuring the permanent correlation and balance between the quantities of natural gas that enter and leave the system. The operations related to the delivery of natural gas are an exception to the rule that forbids the NTS operator to engage in recovery, extraction, distribution and supply of natural gas to consumers, the issuer having the possibility to sell the quantities of natural gas received in exchange for transit services.

The table below shows an evolution, by major categories, of the total investment made by Transgaz during 2004-2006. More than 76% of the amounts detailed below were allocated according to a minimal investment plan approved by NAMR.

Million RON	2004	2005	2006
NTS modernisation and technological upgrade	39.7	16.4	23.7
Development of the gas transport system and installations	216.7	209.6	140.2
Independent equipment	1.9	7.7	2.5
Other building works	10.9	3.3	2.1
Expenses for surveys and projects	0.9	2.1	2.0
Total	270.1	239.1	170.5

The minimal investment plan must be filed for approval by the NAMR (ANRM) once every five years. For 2007-2011, the plan includes investments amounting to RON 1,024 million, dedicated to works for NTS development, modernisation of installations and equipment related to the NTS, but also to works related to the rehabilitation and increase in the operating safety of the natural gas transport pipelines.

Apart from this minimal investment plan, the issuer's investment effort includes investments necessary to the fulfilling of its obligations to provide transport as a public service, as well as objectives deriving from the Romanian energy policy included in the document called The Romanian Energy Strategy for 2007-2020 (according to it, the total investment will amount to RON 1,492 million during 2008-2012).

The issuer's strengths include: natural gas transport in Romania is a monopoly, Transgaz being sole transport operator; the methodology for determining ceiling-type incomes generates a steady income level, obtained from natural gas transport operations; high profitability resulted from natural gas transit operations; very low indebtedness rate. Among the weak points we mention: transit contracts signed so far have a limited validity; a large part of the assets is obsolete; the issuer's net profit rate can be affected if the costs from transport operations exceed the costs accepted by the Regulating Authority; the low chance of increasing the profitability of natural gas transport operations.

The opportunities that the company may enjoy are: implementation of the Nabucco project; additional future regulation in favour of Transgaz. Among the future threats that could affect the company's operations we mention: projects competing with Nabucco may lessen the quantity of natural gas transported through Transgaz pipes; the exchange rate volatility may affect income from transit operations.

► **Share capital**

SHARE CAPITAL

Share capital	RON 103,888,880
Number of shares	10,388,888
Par value	RON 10
Ownership	State majority
Free float	0%

The share capital of Transgaz amounts to RON 103,888,880, divided into a number of 10,388,888 shares with a par value of RON 10. The capital is up to 85.01% held by the Romanian state, represented by the Ministry of Economics and Finance and 14.98% held by the Proprietatea Fund. The share capital structure before the initial public offering is:

Shareholders structure	Number of shares	% share capital
The Ministry of Economy and Finance	8,831,840	85.01%
Proprietatea Fund	1,557,048	14.98%
Total	10,388,888	100.00%

Since its founding, the issuer's share capital was modified several times. It was initially formed by taking over a part of the SNGN Romgaz assets, the capital being afterwards reduced with the value of some fixed and current assets to ANRGN (The National Regulating Authority in the Energy sector) and then increased again through the revaluation of fixed assets and through contributions in kind for real estate property previously owned by the State.

The issuer's share capital will be increased in the subsequent period with the value of real estate property, representing a contribution in kind of the Romanian State. Following the share capital increase, the holding of the Proprietatea Fund will not decrease, as it will receive a number of newly issued shares, on a pro-rata basis.

The forecasted value of the real estate for which the issuer has obtained 14 ownership certificates and for which the share capital has not been increased so far is of RON 46,331. Transgaz has initiated the procedures for obtaining other ownership rights for a number of 56 real estate properties. The forecasted impact on the share capital should not exceed 1%. The value of share capital contributed in kind does not exceed 10% of the current share capital of Transgaz.

In 2004, the Ministry of Economics and Commerce published an offer of privatisation by refund, that included the share of 5% in the share capital of Transgaz, for compensations due to certain segments of entitled persons, but currently there is no information available regarding the structure and level of these subscriptions. The 5% share would only influence the shares owned by the state, not those in the offer.

Following the initial public offering and the Proprietatea Fund having exerted its preference right, the Romanian State, represented by the Ministry of Economics and Finance, will decrease its holding in the company to 75.01% of the shares (giving up the preference right in the increase); the holding of the Proprietatea Fund will remain 14.98% of the shares, and the free float percentage will be of 10%.

Shareholding structure after the IPO	Number of shares	% share capital
Ministry of Economics and Finance	8.831.840	75.01%
Proprietatea Fund	1.764.620	14.98%
Free Float	1.177.384	10.00%
Total	11.773.844	100.00%

After having closed the initial public offering, the share capital of Transgaz will amount to RON 177,738,400 and will be divided into a number of 11,773,844 shares with a par value of RON 10.

By law, the issuer has the obligation to distribute as dividends 50% of the profit left after deduction of the company tax, of legal reserves and other reserves representing tax facilities, after having covered the accounting loss of previous years, created own sources for projects co-financed through foreign loans, as well as after creating sources for repayment of capital instalments, payment of interests, commissions and other costs related to foreign loans.

The dividends for the financial years 2003, 2005 and 2006 amounted to 3.93, 6.88 and 11.69 RON/share respectively; for 2004 there were no dividends paid, as the issuer retained the profit in order to sustain various investment projects.

TURNOVER LEVELS RECORDED

	2005	2006
Domestic transport	66.50%	68.54%
Transit	28.61%	23.47%
Sales of gas	4.80%	7.91%
Other services	0.07%	0.08%

Natural gas transport and transit activities are the main income generating sources.

► **Financial results**

The income obtained by the issuer comes from services of domestic transport, international transit services, income from selling natural gas and income from other sources outside the main operations. In 2006 the income generated by domestic transport operations amounted to RON 620.81 million and represented 68.54% of the total turnover, the income from transit operations amounted to RON 212.66 million and represented 23.47% of the total turnover, and the income obtained from selling gas was RON 71.62 million and represented 7.91% of the total turnover registered. Compared to 2005, the total weight in the turnover of income generated by transit operations decreased, while natural gas transport and natural gas selling registered increases in total incomes. Natural gas transport and transit opera-

tions are the main sources of income, while the other income sources have marginal contributions to the issuer's turnover.

The income from transport operations is regulated and is determined for periods of 5 years. This income sums up the operating costs, the regulated depreciation and the profitability rate applied to the basis of regulated assets:

$$\text{regulated income} = \text{operating costs} + \text{regulated depreciation} + (\text{profitability rate} \times \text{regulated value of assets})$$

The methodology implies establishing, at the beginning of each regulated period, of certain key parameters: operating costs estimated for the first year of the regulated period (to be applied to transport operations); regulated assets basis (established in the first year of the regulating period based on the actualized cash flow method); the annual depreciation calculated for a depreciation period of 30 years, re-evaluated yearly with the working capital value; annual profitability rate (determined on the basis of the weighted average capital cost); the increase of economic efficiency for transport operations.

The total income equals the regulated income, plus the direct costs (tax contributions related to wages, taxes, annual royalty of 5% paid by the State on the basis of the Franchise Agreement, for the income obtained from transport, investment for NTS development and improvement). The income for the following years is the regulated income from the previous year, adjusted by the inflation rate and the efficiency rate, to which are added the corrections for the previous year (forecasted values compared to obtained values), direct costs, return and regulated depreciation of the investments commissioned in the previous year.

The table below shows the evolution of total income accepted by the Regulating Authority in the first regulation period.

Income from gas transport	July 1, 2004-June 30, 2005	July 1, 2005-June 30, 2006	July 1, 2006-June 30, 2007
Total income accepted in the regulated year	483,678,800	558,714,800	731,436,800
- Regulated income	426,325,800	501,617,100	660,283,000
- Direct costs	57,353,000	57,097,700	71,153,000
Realised income	468,799,000	556,105,000	670,345,000
Volume of transport taken into account by ANRE (mil m3)	17,606	17,028	17,037
Volume of transport realised (mil m3)	16,318	15,499	14,500

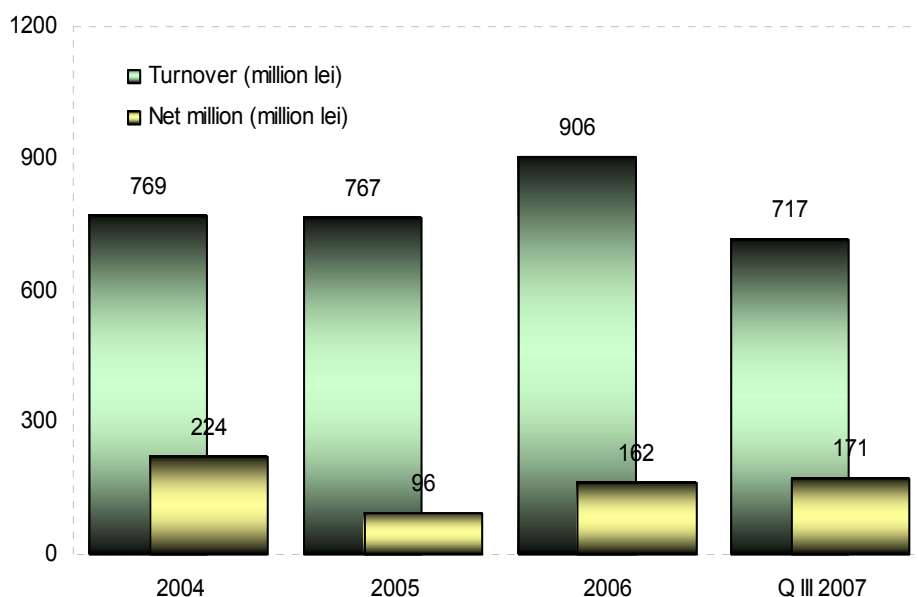
The first regulated period was July 1, 2004 – June 30, 2007 (3 years, by exception). The next regulated period is July 1, 2007 – June 30, 2012.

The other operations with a high weight in the income (transit) are not regulated; prices are established through contracts with third parties, while Transgaz only ensures the gas transport to the Russian Federation by means of 3 main pipelines. The transit contracts were agreed for a limited period.

Transit services are currently offered to Bulgargaz (1 contract) and Gazprom Export (2 contracts). The contract with Bulgargaz will be over by the end of 2011, with no extension clause. One of the contracts with Gazprom will be ended in 2011, with extension possibility for successive periods of 5 years, while the other is valid until 2023 and could be extended for successive periods of 5 years.

For the transit operations of Transgaz, there is a risk involved, namely that certain projects in which the company is not involved will decrease the quantity of natural gas transited by the issuer, leading to a reduction in the income from this operation. There is also the possibility of putting into practice projects in which Transgaz would enjoy an important role, which could lead to an increase in income from transit operations.

Other income obtained by the issuer is from sales of natural gas received as barter and income from other services. The graph below shows an evolution of the turnover and net profit in the period 2004 – Q III 2007.



CASH FLOWS

Mil. RON	2005	2006
Cash beg. of year	22.38	29.97
Operating cash	245.81	332.78
Investment cash	-230.96	-125.74
Financing cash	-7.28	-176.06
Cash end of year	29.97	60.93
Cash variation	7.59	30,96

The table below shows an evolution for 2004 – Q III 2007 of the main indicators from the profit and loss account (IFRS – International Financial Reporting Standards).

RON	2004	2005	2006	Q II 2007
- Income from domestic transport services	434,774,000	510,248,000	620,811,000	n/a
- Income from international transit services	242,316,000	219,546,000	212,667,000	n/a
- Income from sales of gas	91,130,000	36,836,000	71,623,000	n/a
- Income from other services	557,000	558,000	659,000	n/a
Turnover	768,777,000	767,188,000	905,760,000	492,562,000
Other income	5,427,000	13,377,000	29,197,000	3,432,000
Total income	774,204,000	780,565,000	934,957,000	495,994,000
- Asset depreciation expenses	154,524,000	161,203,000	165,297,000	79,188,000
- Wages and salaries expenses	137,192,000	142,613,000	178,742,000	77,573,000
- Technological consumption - gas	123,861,000	164,735,000	168,251,000	71,635,000
- Cost of gas sold	89,415,000	36,554,000	71,488,000	55,742,000
- Royalty expenses	33,854,000	35,851,000	42,313,000	21,813,000
Total operation costs	614,554,000	642,403,000	758,676,000	385,769,000
% Operation costs in the turnover	79.93%	83.73%	83.76%	77.77%
- Profits from transport	-20,289,000	4,290,000	6,728,000	n/a
- Profit from transit	184,317,000	131,159,000	155,588,000	n/a
- Profit from gas supply operations	1,715,000	282,000	135,000	n/a
- Profit from other operations	-6,093,000	2,431,000	13,830,000	n/a
Operating profit (EBIT)	159,650,000	138,162,000	176,281,000	110,225,000
Operating margin (%)	20.62%	17.70%	18.85%	22.22%
EBITDA	314,174,000	299,365,000	341,578,000	189,413,000
EBITDA margin (%)	40.58%	38.35%	36.53%	38.18%
Financial income	33,693,000	12,925,000	38,778,000	17,097,000
Financial expenses	24,507,000	35,309,000	20,981,000	6,430,000
Financial result	9,186,000	-22,384,000	17,797,000	10,667,000
Gross profit	168,836,000	115,778,000	194,078,000	120,892,000
Gross margin (%)	21.80%	14.83%	20.75%	24.37%
Net profit	224,060,000	96,004,000	161,561,000	101,064,000
Net margin (%)	28.94%	12.29%	17.28%	20.37%

GROWTH RATES

	2005	2006
Turnover	0.2%	18.0%
Operating expenses	4.5%	18.1%
Operating profit	-13.4%	27.6%
Net profit	-57.1%	68.2%

The turnover of Transgaz registered an increase of 18.06% in 2006, from 767.18 million RON to 905.76 million RON, generated by the increased income obtained from natural gas transport operations; the results remained

GROWTH RATES INCOME

	2005	2006
Transport income	17.3%	21.6%
Transit income	-9.4%	-3.1%
Income from sales of gas	-59.5%	94.4%
Other services	0.1%	18.1%

EXPENSES GROWTH RATES

	2005	2006
Asset depreciation expenditure	4.32%	2.53%
Wages	3.95%	25.33%
Technological consumption	32.99%	2.31%
Cost of sold gas	-59.11%	94.45%
Royalty expenditure	5.89%	18.02%
Maintenance and repair	173.48%	50.43%

OPERATIONS PROFIT STRUCTURE - 2006

Transport	3.81%
Transit	88.26%
Gas supply	0.07%
Other operations	7.86%

OPERATING EXPENSES STRUCTURE - 2006

Asset depreciation expenditure	21.78%
Wages	23.55%
Technological consumption	22.17%
Cost of sold gas	9.42%
Royalty expenditure	5.57%
Maintenance and repair	7.20%

stable in 2005, when the increase of income from natural gas transport compensated for the decrease of the income obtained from transit or natural gas sales operations. The decrease of income from transit operations is due to the RON increase, but it remained steady in the currency they were contracted in.

The issuer receiver as barter, according to dispositions in the transit contracts, natural gas that will be sold by the company on the local market or will be used for its own technological consumption. The increase of 94.4% in the income from natural gas sold in 2006 is due both to the higher volume of gas available and to the use of a smaller quantity for own consumption.

The profit from operations registered an increase of 27,59% in 2006, amounting to RON 176.28 million, having as main cause the improvement of the profit margin from transit operations and the increase in the level of profits from natural gas transit operations, by 18.60 %. The increase in profit generated by the transit operations was due to lower maintenance expenses. A significant contribution to the operational profit increase had also the fact that in 2006 higher, non-recurrent increases were registered. Due to the small value compared to the final operational profit, the increase in the profit rate due to gas transportation, of 56.85%, was insignificant regarding its general impact on the total profit. In 2005, the operating income registered a decrease of 13.45%, mainly because of the decrease in income from transit operations and implicitly in the profit generated by these operations.

In 2006, the net profit registered an increase of 68.28%, up to the value of RON 161.56 million. The net profit has registered a decrease of 57.15% in 2005, its level being due to a smaller operation profit, but also to higher financial expenses.

The expenses with the highest weight in the total are for technological consumption (own consumption of gas), for depreciation of assets and for wages.

	2004	2005	2006
Profitability for transport operations	loss	0.84%	1.08%
Profitability for transit operations	76.06%	59.74%	73.16%
Operations margin	20.77%	18.01%	19.46%
Net profit rate	27.73%	12.10%	16.59%
Equity profit rate	10.36%	4.36%	7.07%
Total ROA	8.11%	3.34%	5.55%

As we showed earlier, the income from transport had the highest weight in the total income received, but it did not have the highest contribution to the company profitability. Thus, the most profitable operations are transit operations, generating 88.26% of the total operational income in 2006. Natural gas transport operations registered a net profit rate of 0.84% in 2005 and of 1.08% in 2006, the issuer registering a very small profit from these operations.

Transgaz operations are seasonal, generally smaller incomes being registered in QI and QIII of the year.

The parameters considered in order to establish the income for the regulated period July 1, 2004 – June 30, 2007 were as follows: operating costs for the first year of the regulated period RON 289,234,000; annual profit rate for the first regulated period of 10.84%; regulated assets basis of RON 942,452,000, economic efficiency increase rate for the regulated period of 0.00%.

The second regulated period began on July 1, 2007 and encompasses the following 5 years. The total income accepted for the first regulated year was RON 955,281,000, with the new fees based on it scheduled to become valid on October 1, 2007. The parameters used to establish the income regulated in the first year of this regulated period are: operating costs for the first year of the regulated period of RON 627,174,000; annual profit rate of 7.88%; regulated assets basis of RON 1,860,269,000; economic efficiency increase rate for the whole regulated period of 8.00%; direct costs for the first year of the regulated period of RON 117,470,000.

The table below shows an evolution for 2004 – Q II 2007 of the main balance sheets indicators.

SOLVENCY RATES

	2005	2006
Solvency	76.64%	78.51%
Indebtedness rate	23.36%	21.49%

RON	2004	2005	2006	Q II 2007
Long-term assets	2,534,523,000	2,614,194,000	2,630,809,000	2,641,727,000
- Intangible Assets	2,521,865,000	2,602,485,000	2,619,675,000	2,632,011,000
Current assets	227,537,000	254,904,000	276,896,000	9,713,000
Total assets	2,762,060,000	2,869,098,000	2,907,705,000	2,842,732,000
Equity	2,161,370,000	2,198,874,000	2,282,839,000	2,262,576,000
- Share capital	545,123,000	545,222,000	545,249,000	545,307,000
- Reserve related to public wealth	1,264,797,000	1,265,797,000	1,265,797,000	1,265,797,000
Non-current liabilities	385,631,000	361,006,000	322,294,000	299,699,000
Current liabilities	215,059,000	309,218,000	302,572,000	280,457,000
Total liabilities and equity	2,762,060,000	2,869,098,000	2,907,705,000	2,842,732,000

► *Evaluation and Conclusions*

Transgaz is the newest state-owned company of strategic importance that is listed on the Bucharest Stock Exchange, thus adding to the utilities sector and implicitly to the structure of the issuers listed on the regulated market; this new company also diversifies the opportunities available to investors, (the number of IPOs taking place in Romania so far is pretty small).

The well regulated legislative and operational environment in which it operates and the monopoly status of Transgaz determines a certain stability and predictability of its future results. Moreover, apart from the regulated income - for which the increase estimations in the following years are moderate - the issuer can take advantage in the future of an increase of the natural gas transit operations, because of the Nabucco project. Of course, as we have shown earlier, the project still has difficulties and a certain level of uncertainty.

In the table below, there is a comparison between the main profit rates registered by Transgaz and those registered by other companies in the field of natural gas in Europe.

Companies	Operating margin	Net margin	ROA	ROE
Gaz de France	13.05%	8.31%	5.24%	14.97%
Gas Natural	12.21%	8.26%	6.31%	15.45%
SNAM Rete Gas	52.56%	25.45%	4.34%	11.67%
Enagas	51.66%	29.52%	6.32%	18.45%
Distrigaz	8.74%	5.65%	9.01%	25.31%
Rubis	6.06%	4.18%	4.34%	9.56%
Transgaz	18.85%	16.59%	5.55%	7.07%

A higher profitability is reached by the companies Snam Rete Gas and Enagas, these working with high operating rates, of 52.66%, and 51.66% respectively, while the operating margin of Transgaz by the end of 2006 was 18.85%. Enagas is the Spanish gas transporter, but the business line of this issuer also includes other operations, such as storage or degassing of natural gas. Snam Rete Gas is the leader of the natural gas transport market in Italy. The basis of the differences between the efficiency rates of the two companies and Transgaz consists in a higher technology level of the first two; due to the state of its long-term assets, Transgaz registered higher operational expenses due to repairs and technological consumption. Another reason is the major regulating differences between the countries to which each company belongs.

Compared to the other companies listed, Transgaz has better efficiency rates, but any comparison must also take into account the specifics and the complexity of each company's operations. The operating margin of Transgaz is calculated in relation to the operations profit and the turnover registered by the issuer, but certain features of the company's activity must be analyzed (the fact that natural gas transport operations are regulated in Romania, and this generates a lower profit compared to the income, etc.) The other important operation type, natural gas transit, enjoy a much higher operational margin of 73.16% by the end of 2006.

The issuer registers a ROA comparable to that of issuers taken into account in the table above, and a lower ROE, because of the lower indebtedness rate registered by Transgaz.

Because Transgaz is currently not a listed company, its shares have no market price. Taking into account the price of a share in the public offer, of RON 191.92, we will estimate certain multiples and indicators in order to estimate the issuer's value.

TRANSGAZ	Before the IPO	After the IPO
Profit/share (RON)	17.8810	15.7776
Book value (RON)	217.7880	193.3453
Income per share	97.9242	86.4051
P/E Multiple	10.73	12.16
P/B Multiple	0.88	0.99
P/S Multiple	1.96	2.22

Transgaz will be the second company dealing in utilities to be listed on the Bucharest Stock Exchange, the other listed company being CNTEE Transelectrica. The latter could be considered a company comparable to Transgaz, both from the sector's point of view, and due to the regulated character of both types of operations. Transelectrica is the national electricity transporter, its income being regulated, and Transgaz is the national natural gas transporter, with a part of its income being also regulated.

Currently, Transelectrica shares are traded at a P/E of 17.29, a P/B of 1.19 and a P/S of 0.95. When comparing these values with the multiples of Transgaz estimated above we have to take into account the very high and unusual value of financial income for Transelectrica in the last 12 months; also, another distinction is that Transelectrica's operations are completely regulated, as compared to those of Transgaz.

We will estimate a potential fair price for a Transgaz share, by using both the method of comparison with comparable companies and the Discounted Cash Flow Method:

Comparables*	P/E current	P/E 2007E	P/S current	P/S 2007E	P/EBITDA current	P/EBITDA 2007E	P/B
Gaz de France	18.73	15.39	1.50	1.37	7.43	7.01	2.26
Gas Natural	19.94	18.16	1.87	1.62	8.07	7.61	3.01
SNAM Rete Gas	18.35	17.10	4.54	4.13	4.68	5.14	2.33
Enagas	19.81	17.95	6.00	5.35	7.40	7.17	3.55
Average	19.20	17.15	3.47	3.11	6.89	6.73	2.78
Transgaz	12.16	11.52	2.22	2.09	6.14	6.43	0.99
Discount/Premium of Transgaz compared to the average	-36%	-33%	-36%	-32%	-11%	-4%	-64%
Weights used in the evaluation		0.40		0.40		0.20	0.00
Total estimated value Transgaz	RON 3,010.61 million						
Estimated value per share Transgaz	RON 255.70 share						

Discounted Cash Flow* (DCF)										
million RON	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBIT (Operating profit)	205.18	238.79	277.87	323.30	376.10	422.74	464.17	497.59	520.48	530.89
Tax (%)	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
EBIT* (1-Tax)	172.35	200.58	233.41	271.57	315.92	355.10	389.90	417.97	437.20	445.94
+ Depreciation	173.56	182.23	191.35	200.91	210.96	220.24	228.61	235.93	242.06	246.90
- Capital expenses	179.02	187.97	197.37	207.24	217.60	236.13	254.65	273.18	291.70	310.23
- Increase of working capital	29.63	34.07	39.19	45.06	51.82	49.27	43.76	35.30	24.18	10.99
= FCFF (Free Cash Flow)	137.26	160.77	188.20	220.18	257.45	289.94	320.09	345.41	363.38	371.62
The company's residual value in 2016										5,269.71
FCFF updated value	122.82	129.32	136.51	144.73	153.50	157.49	159.10	157.23	151.48	2,153.71
Company value	RON 3,465.93 million									
Value of a share, estimated based on DCF	RON 275.41 /share									

WACC components*										
Cost of Equity	12.90%	12.30%	11.92%	11.34%	11.16%	10.60%	10.10%	10.10%	10.10%	10.10%
Risk-free Rate	6.50%	6.30%	6.00%	5.50%	5.40%	5.00%	4.50%	4.50%	4.50%	4.50%
Risk premium	8.00%	7.50%	7.40%	7.30%	7.20%	7.00%	7.00%	7.00%	7.00%	7.00%
Beta	0.80									
Indebtedness rate	21.49%									
Cost of loans (before tax)	9.00%	8.80%	8.50%	8.25%	8.00%	7.50%	7.00%	7.00%	7.00%	7.00%
WACC	11.75%	11.25%	10.89%	10.35%	10.25%	9.77%	9.28%	9.19%	9.19%	9.19%

*The tables use Intercapital Invest and Bloomberg data and estimations

According to the average of the multiples recorded by the companies Gaz de France (Bloomberg: GAZ FP), Gas Natural (Bloomberg: GAZ SM), Snam Rete Gaz (Bloomberg: SRG IM) and Enagas (Bloomberg: ENG SM), the estimated value of a Transgaz share is of RON 255.70.

According to the DCF model, the estimated value of a Transgaz share is RON 275.41. The estimations taken into account in the model use an increase of 15% of the income in the first growth period, and a 2% long-term increase.

Using the results of both models, the value of a Transgaz share estimated by us is RON 265.55 / share.

Evaluation of Transgaz

	Price / share - RON	Weight	Target price
Discounted Cash Flow	275.41	0.50	RON 265.55 /share
Multiples comparisons	255.70	0.50	

In March 2007, Standard&Poor's Ratings Services rated Transgaz "BB+" for corporate long-term loans, with positive prospects. The rating reflects the favourable operations field and the monopoly held in the natural gas industry in Romania, the stability of income generated by natural gas transport, the strong financial situation and the indirect government support regarding the monopoly status and the strategic importance of the company in the energy sector.

The Transgaz initial public offering is awaited with interest by investors, taking into account the fact that this is the first IPO this year, and for the time being the largest IPO so far in Romania.

From the experience of other initial public offerings that took place so far in the country, there is a high probability that the Transgaz IPO will also register a high over-subscription rate.

To conclude, taking into account all of the valuation methods and the information presented in this report, we consider that the Transgaz IPO represents, both fundamentally as well as technically, a good investment opportunity for investors.

RECOMMENDATION:

BUY





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